

Employment Forecast (2013-2015)

May 1, 2014



HIGHLIGHTS

- ✓ Forecast Nonfarm job gains of 53,500 in 2014 and 60,400 in 2015
- ✓ OTY Nonfarm employment growth rate of 2.1% in 2014 and 2.4% in 2015 is forecast
- ✓ 114,000 Nonfarm jobs is forecast to be gained over the two-year period (4.5%)
- ✓ Ten of the eleven sectors are forecast to add jobs over the two-year period
- ✓ Education and Health Services (EHS) sector is expected to add the largest number of Nonfarm jobs (24,200) over the two-year period or 6.5%
- ✓ The Construction sector is expected to add the largest percentage gain at 9.5% (11,700 jobs)
- ✓ Trade, Transportation, and Utilities (TTU) (24,000 or 5.0%), Leisure & Hospitality (18,600 or 6.8%), Financial Activities (17,200 or 9.3%), Professional and Business Services (PBS) (16,600 or 4.5%) sectors are expected to be the sectors with larger employment gains

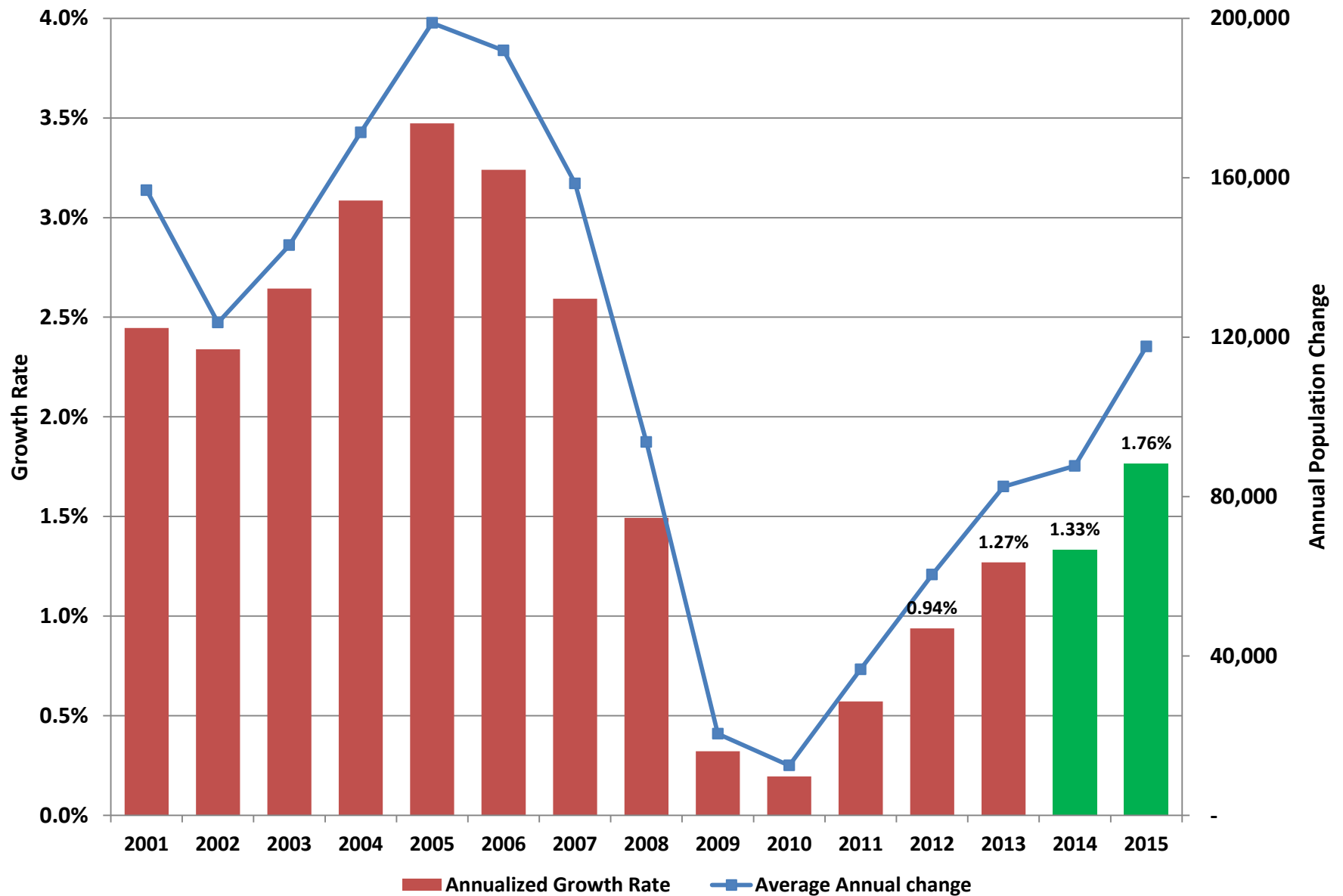
Economic Trends

- Growth in real GDP, real personal income, employment, retail sales
- Increasing private domestic investment, gradual increase in the index of industrial production and rate of capacity utilization, high corporate profit, a slow resurgence in private residential construction permits
- Continued gradual climb in household net worth resulting from paying down of debts and accumulation of assets either through cash savings or through their homes. U.S. exports are also increasing
- U.S. exports are also increasing however at a slowing rate of growth
- Continued drop in U.S. and Arizona's unemployment rate

Economic Trends Continued

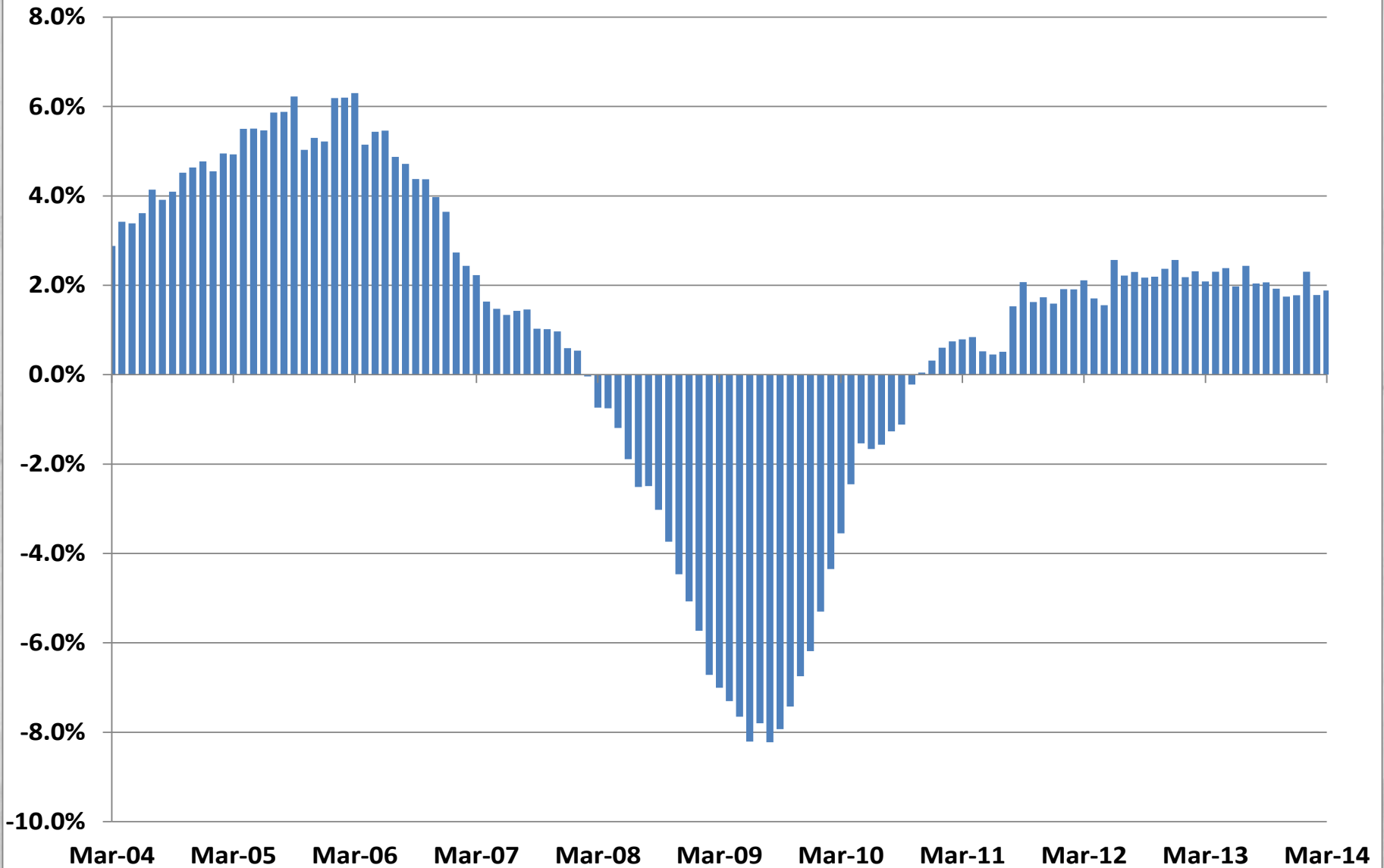
- Residential real estate markets in Arizona and Phoenix MSA are showing an improvement (prices, building permits)
- While revolving consumer credit levels have remained flat, an expansion of non-revolving consumer credit since 2011 has served as an impetus to expanding economic activity
- Consumer sentiment and consumer spending have shown signs of improvement, but the rate of growth has been slowing down
- An overall improving international economy is expected to foster economic activity on the domestic front

Arizona's Population Growth Rates

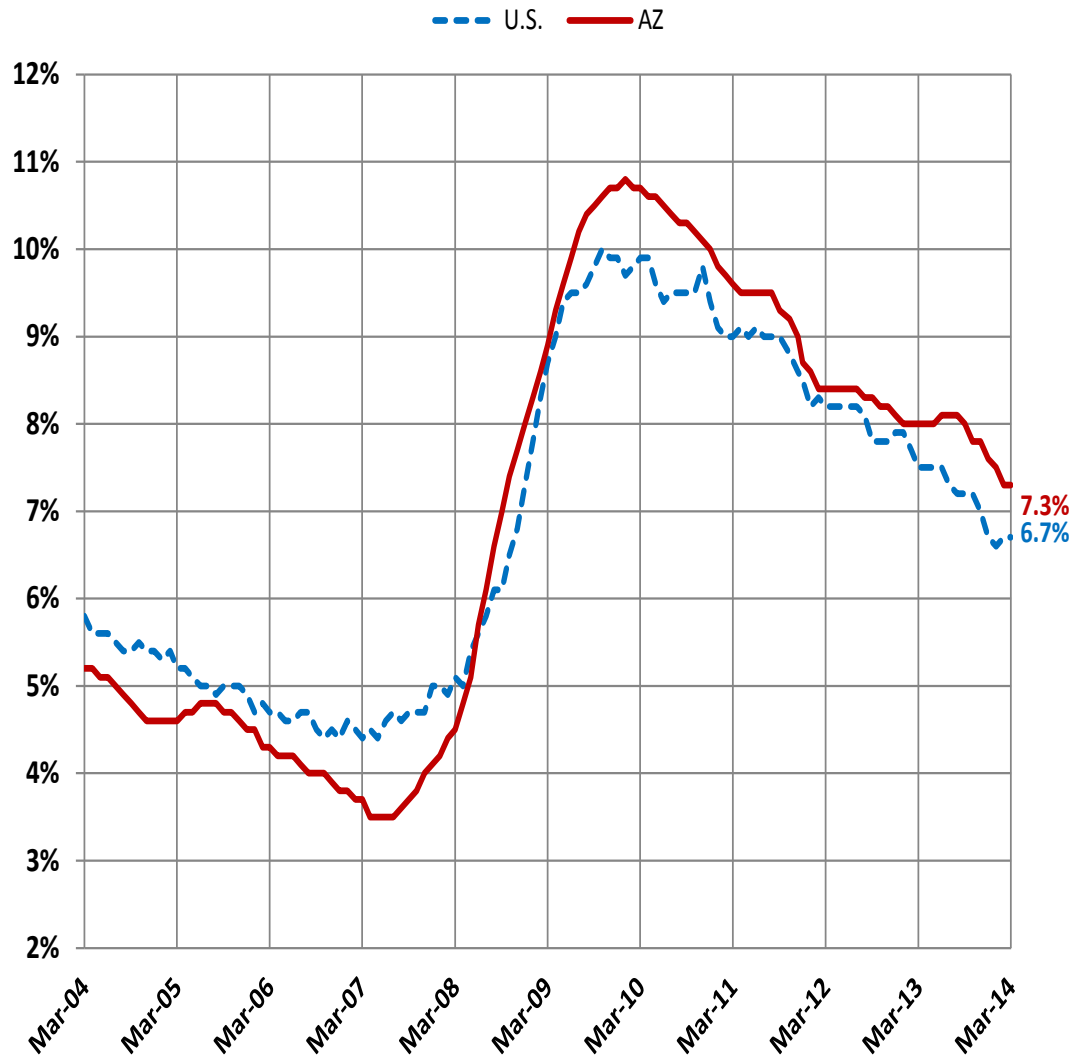


41 Months of positive over-the-year job gains, average OTY Nonfarm growth rate stagnates at 2.1% for the past two years

Arizona Nonfarm Employment OTY Percent Change



Arizona & U.S. Unemployment Rate Seasonally Adjusted

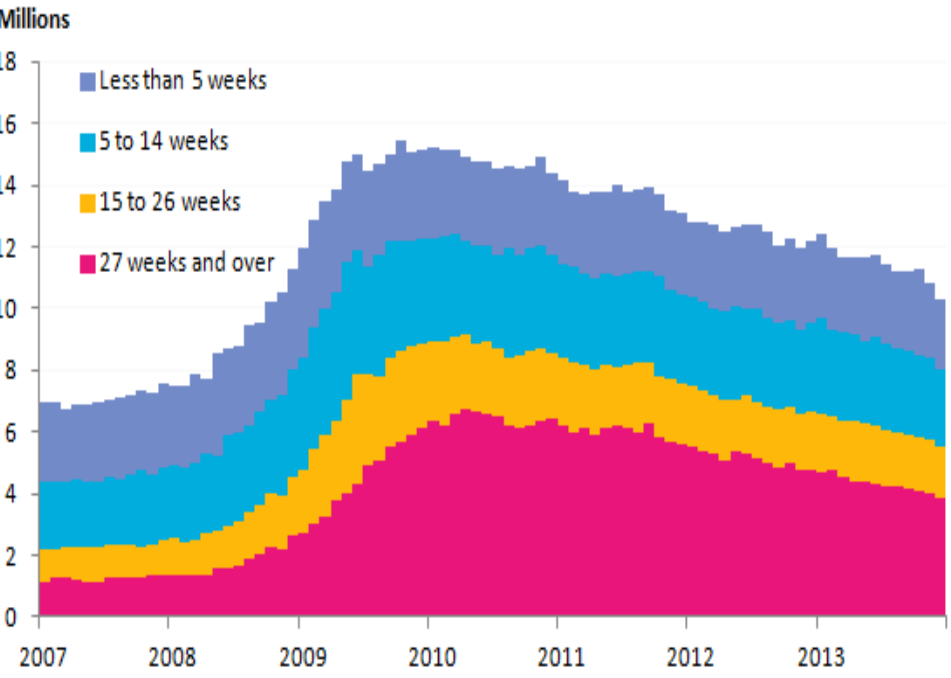


Seasonally Adjusted				
	Labor Force	Employment	Unemployment	
	Level	Level	Level	Rate
Jan	3,004,343	2,778,184	226,159	7.5
Feb	3,006,188	2,786,356	219,832	7.3
Mar	3,029,478	2,808,390	221,088	7.3
OTM Change	23,290	22,034	1,256	0.0%

Long-term unemployed account for 37.7 percent of all unemployed persons in December 2013

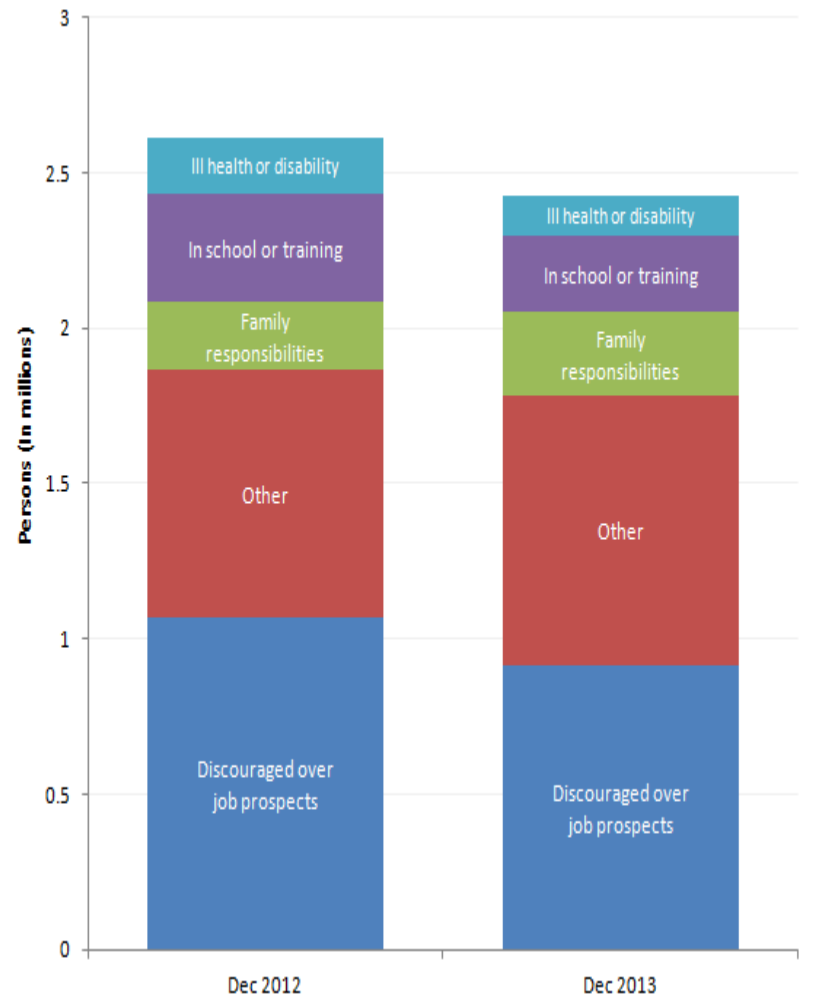
From December 2012 to December 2013, the number of long-term unemployed (seasonally adjusted) declined by 894,000 to 3.9 million, or 37.7% of the unemployed. In December 2013, 2.4 million persons (not seasonally adjusted) were marginally attached to the labor force, slight decline from a year earlier

Number of unemployed persons by duration of unemployment, seasonally adjusted, January 2007–December 2013



Source: U.S. Bureau of Labor Statistics.

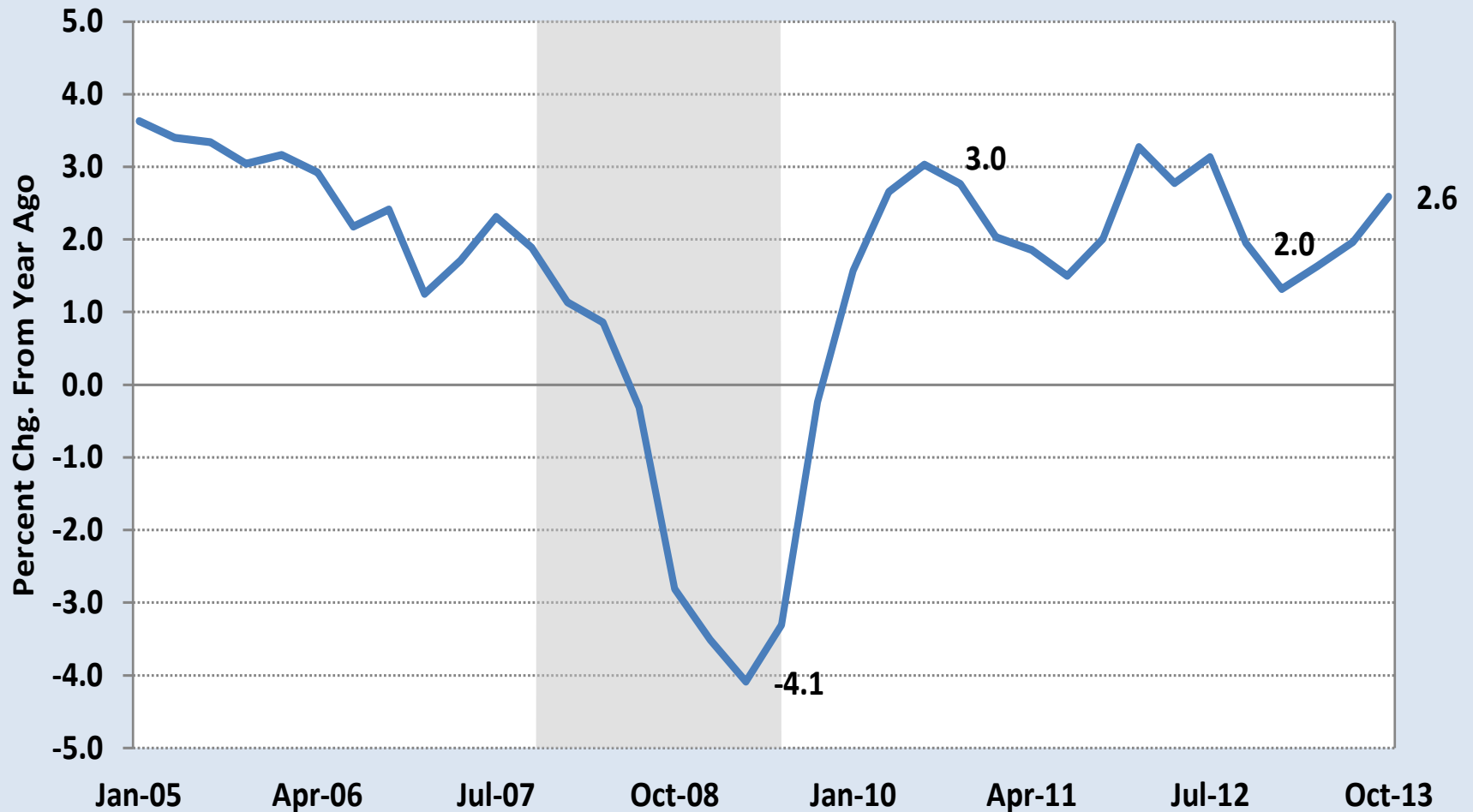
Persons marginally attached to the labor force by reason for not currently looking for work, December 2012 and December 2013



Source: U.S. Bureau of Labor Statistics.

Growth rate in GDP picking up

Real Gross Domestic Product YOY Percent Growth



Source: U.S. Department of Commerce: Bureau of Economic Analysis/FRED

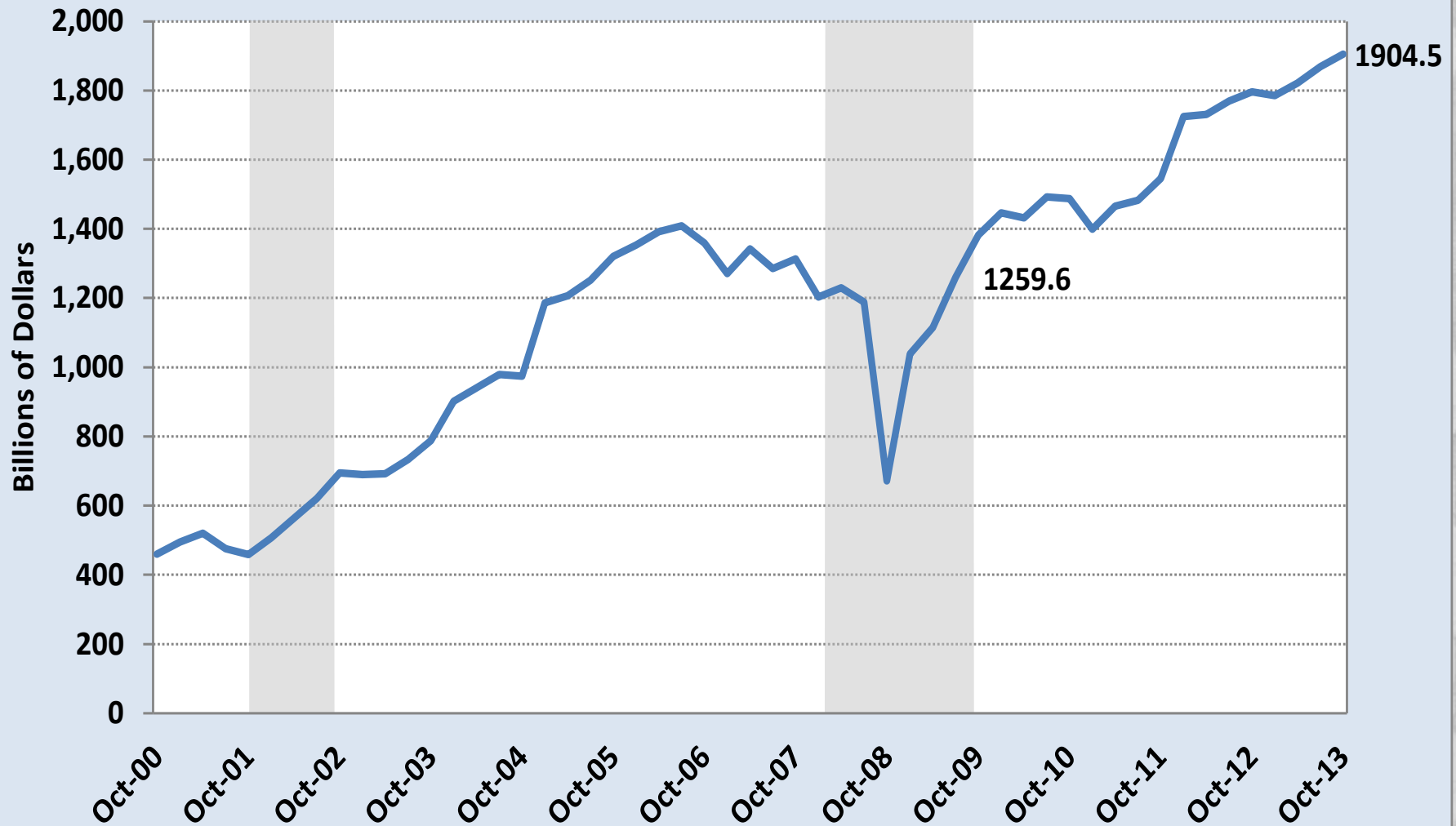
Capacity Utilization rate above 75 percent and improving

Capacity Utilization: Total Industry



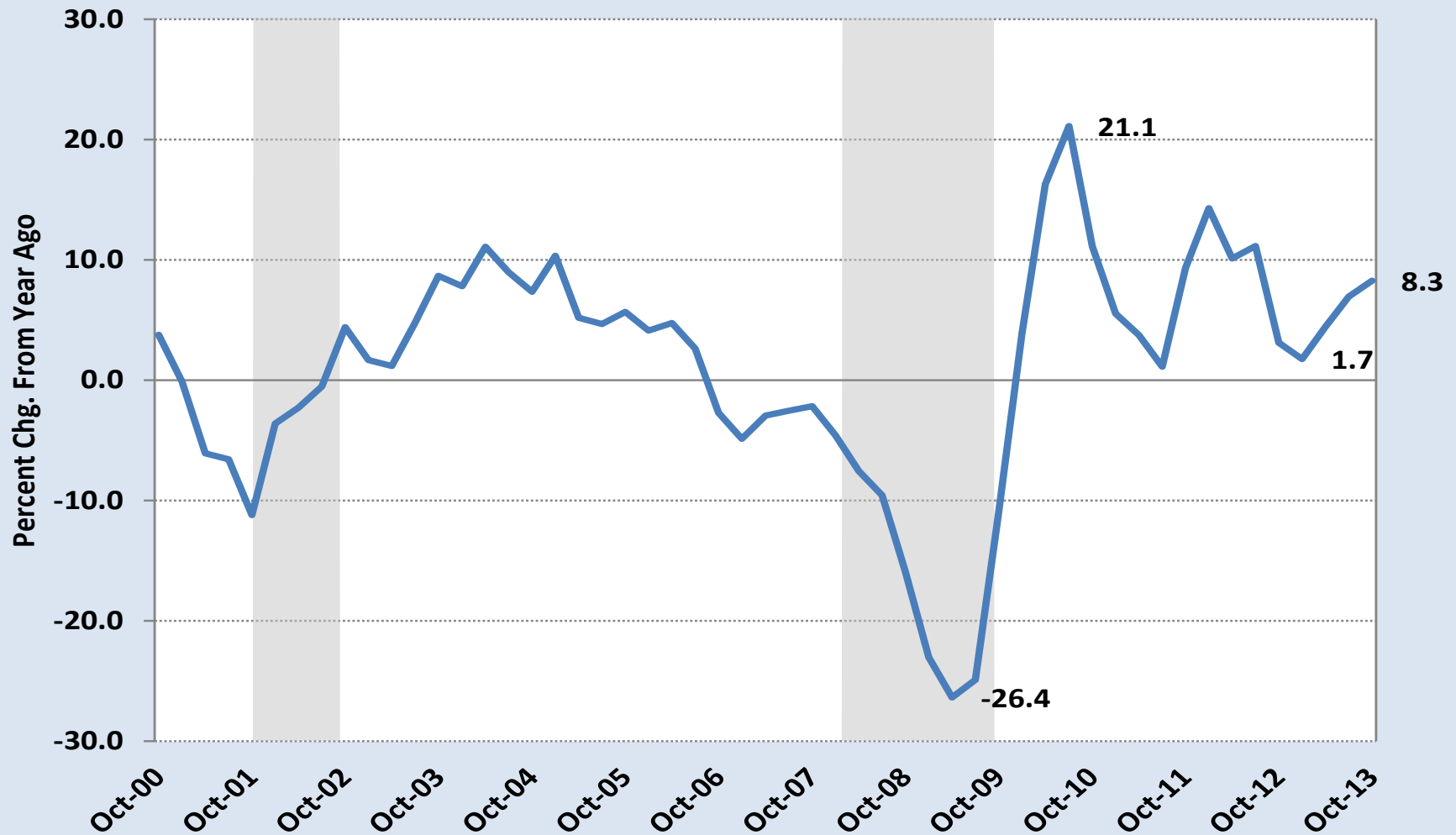
Source: Board of Governors of the Federal Reserve System/FRED

Corporate Profits After Tax



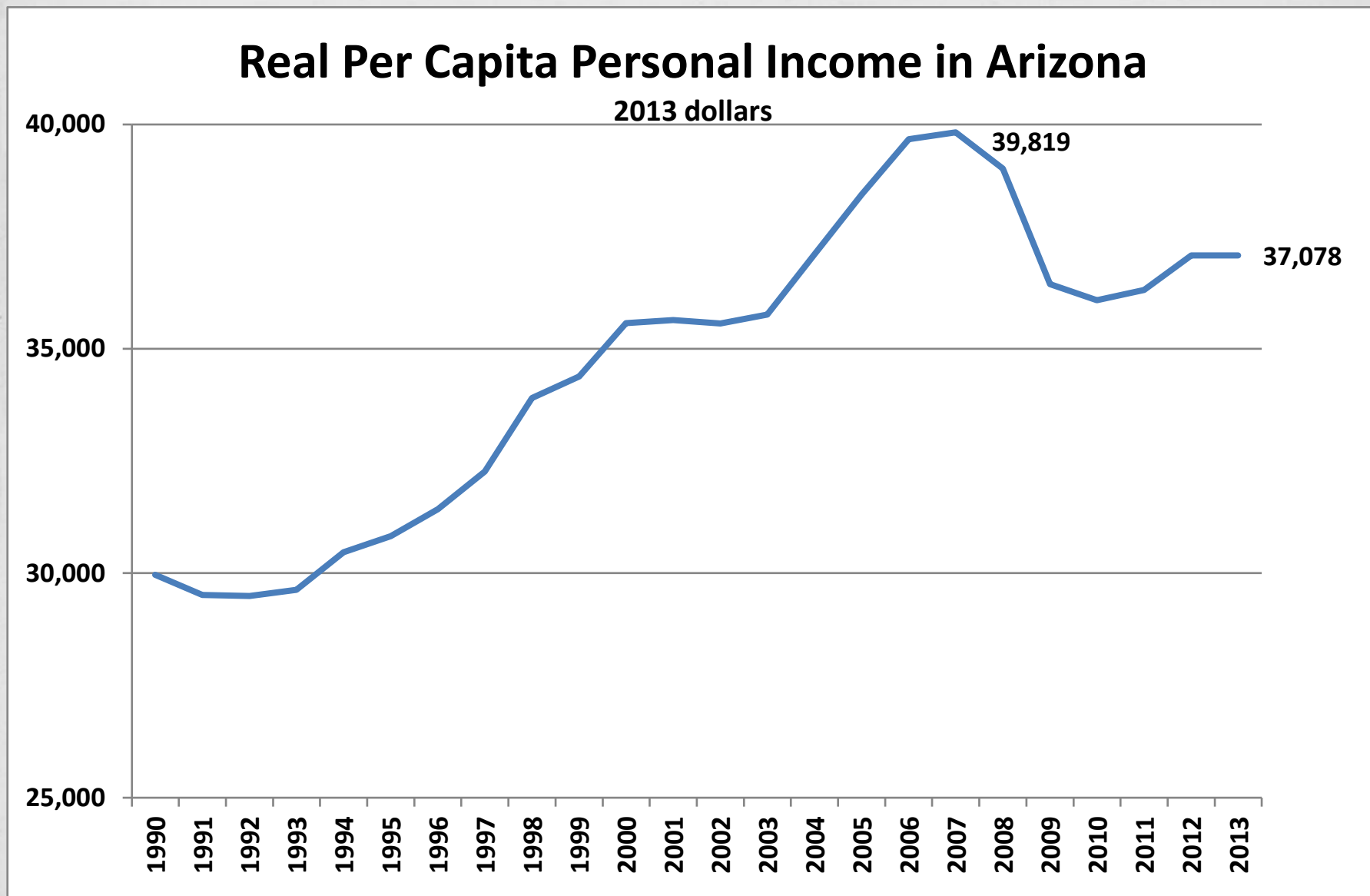
Source: U.S. Department of Commerce: Bureau of Economic Analysis/FRED

Real Gross Private Domestic Investment



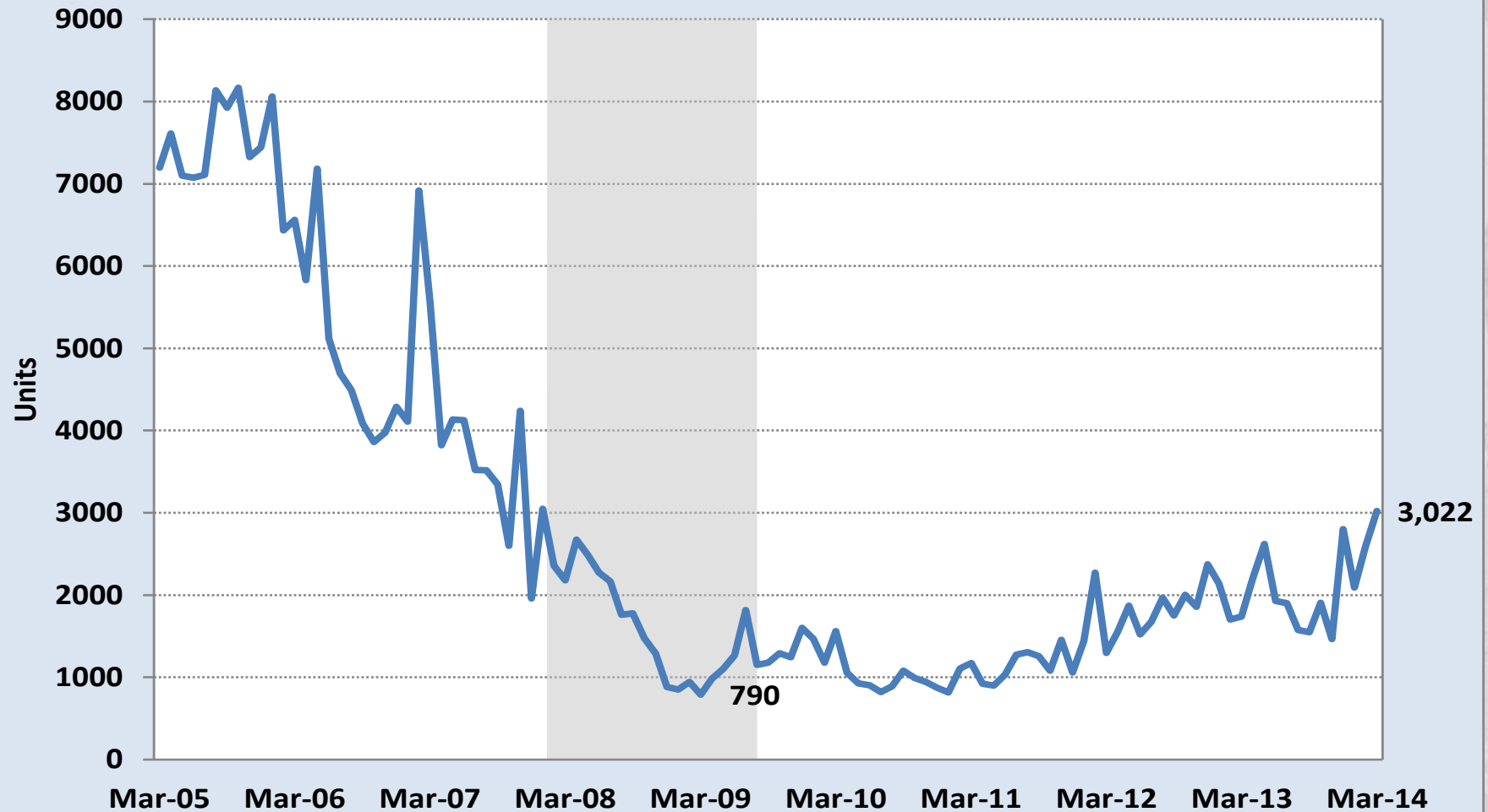
Source: U.S. Department of Commerce: Bureau of Economic Analysis/FRED

Stagnant Per Capita AZ Personal Income past two years



Source: U.S. Department of Commerce: Bureau of Economic Analysis/FRED

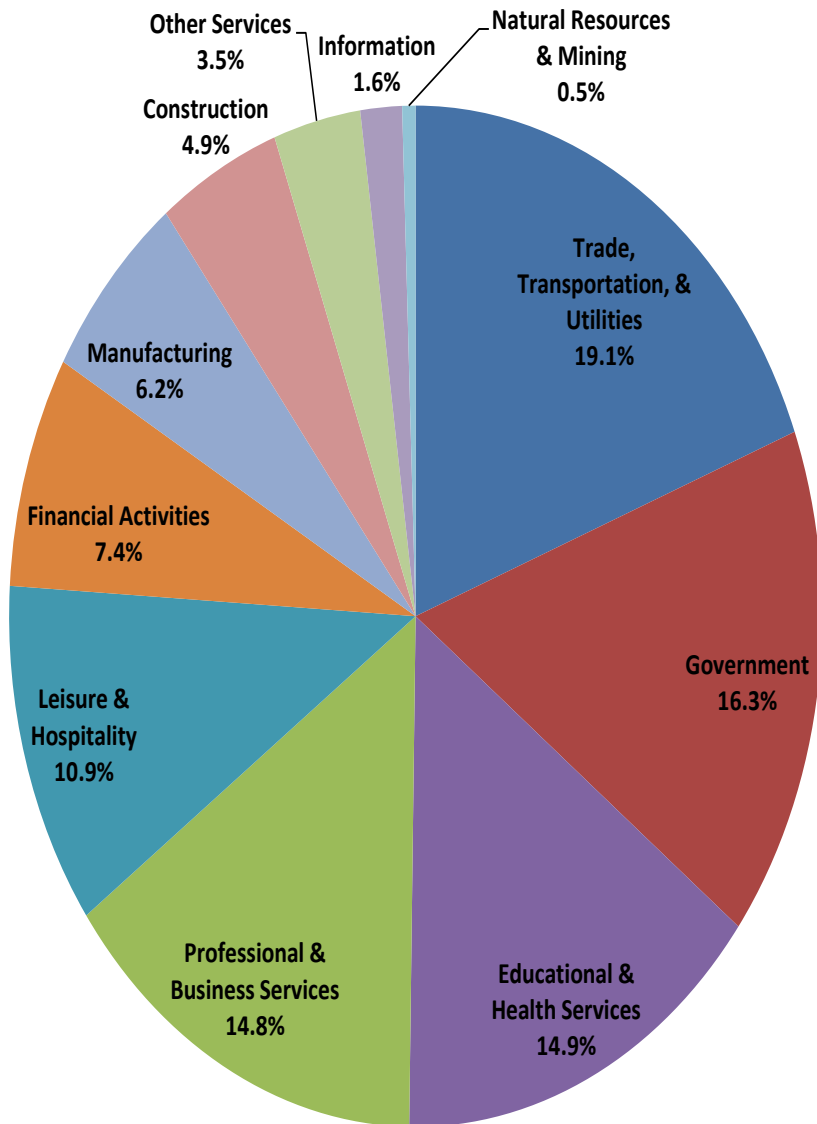
New Private Housing Building Permit (AZ)



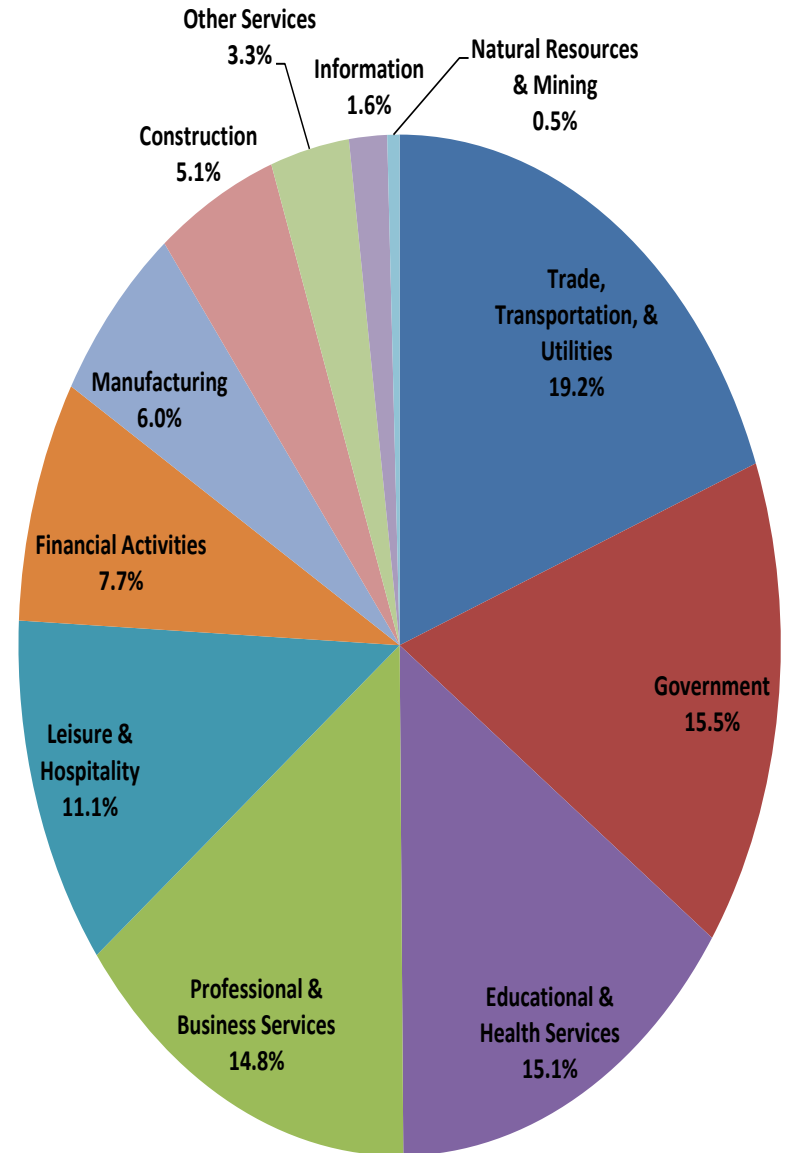
Source: Federal Reserve Bank of St. Louis/FRED

Industry Share of Arizona Nonfarm Employment, (Not Seasonally Adjusted)

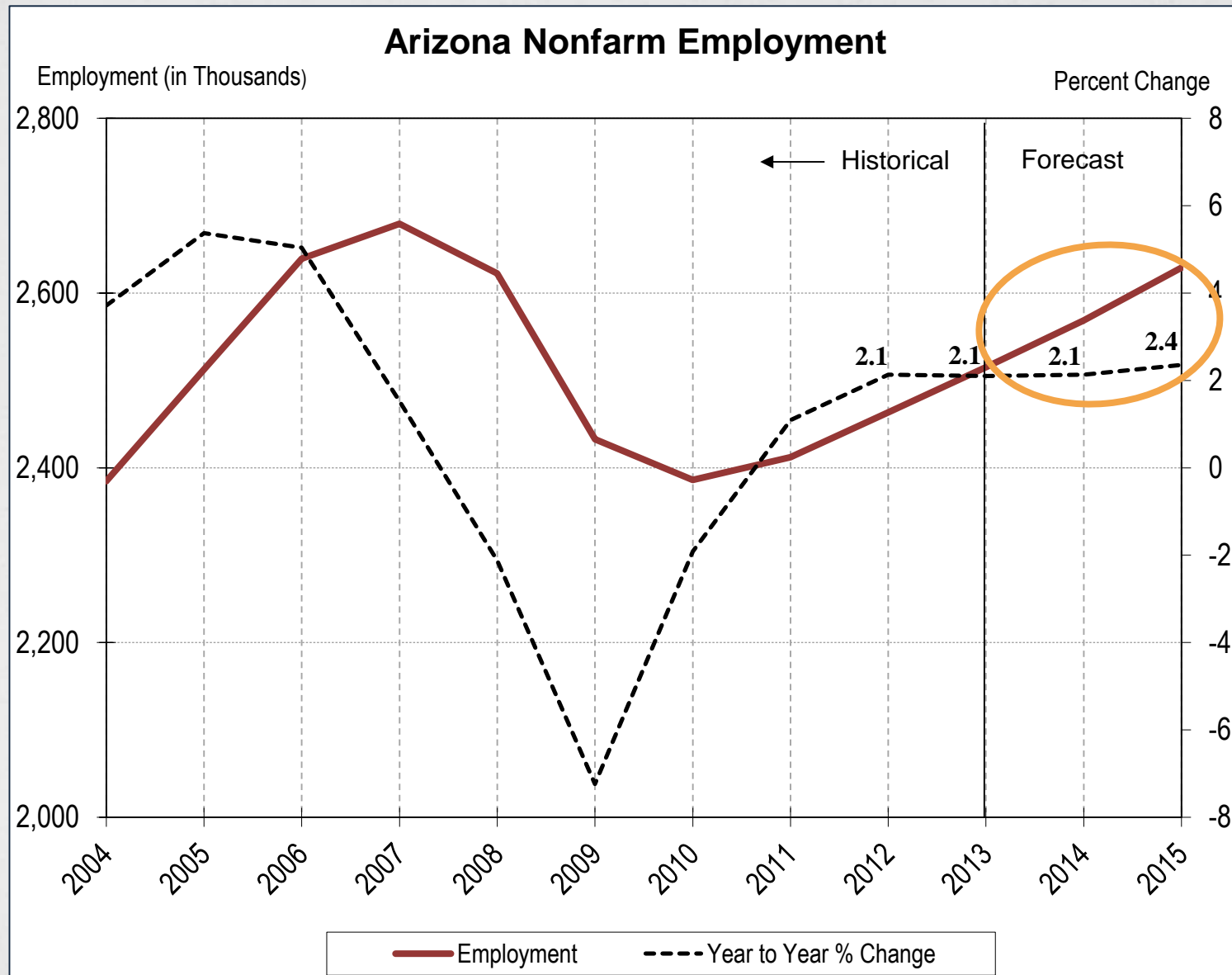
Arizona, 2013



Arizona, 2015



Nonfarm job gains will continue to grow in 2014 and 2015



Over the year gain of 53,500 in 2014 and 60,400 in 2015

OTY Nonfarm employment growth rate higher in Phoenix and lower in Tucson and Balance of State

Total Nonfarm Employment Annual Average Growth Rate

	2013 ^(a)	2014 ^(b)	2015 ^(b)
Arizona	2.1%	2.1%	2.4%
Phoenix MSA ¹	2.8%	2.5%	2.6%
Tucson MSA ²	0.7%	1.2%	1.8%
Balance of State	0.2%	1.3%	1.7%

Slightly
Faster
Growth

Slower
Growth

1) Maricopa and Pinal counties

2) Pima County

3) Arizona less Maricopa, Pinal and Pima counties

a) Historical

b) Forecast

Total Nonfarm Employment

Annual Average Growth

	2014^(b)	2015^(b)
Arizona	53,500	60,400
Phoenix MSA ¹	44,600	48,000
Tucson MSA ²	4,400	6,400
Balance of State ³	4,500	6,000

1) Maricopa and Pinal counties

2) Pima County

3) Arizona less Maricopa, Pinal and Pima counties

a) Historical

b) Forecast

Numbers may not add due to rounding error

Ten sectors forecast to gain jobs in 2014 and 2015

Arizona Sector Employment

Average Annual Over-the-Year Change

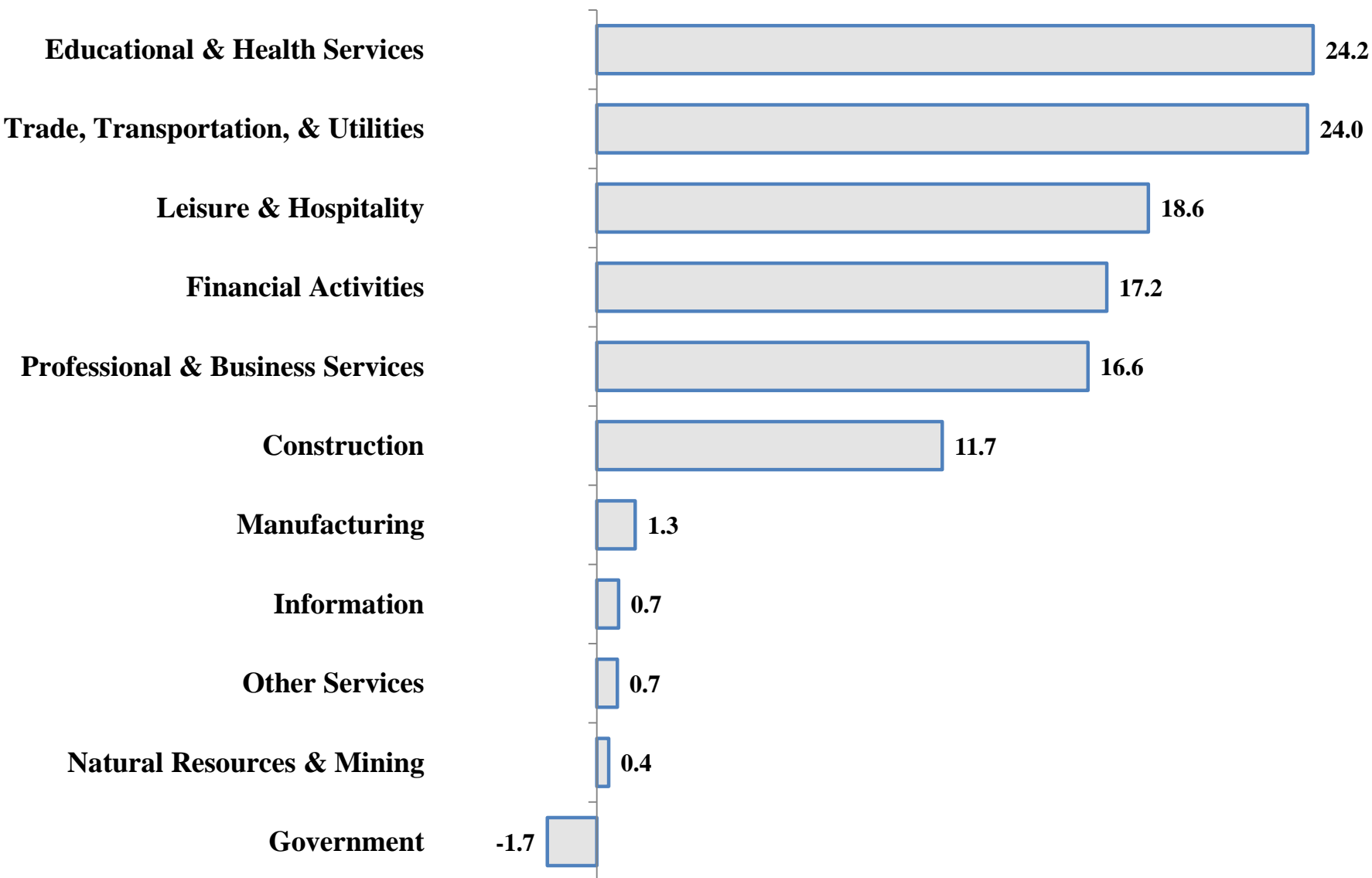
	2013(a)	2014(b)	2015(b)
Total Nonfarm	2.1%	2.1%	2.4%
Construction	5.9%	4.0%	5.3%
Natural Resources & Mining	4.7%	1.5%	1.4%
Profess&Business Svcs	4.0%	2.0%	2.4%
Financial Activities	4.7%	5.1%	4.0%
Information	4.8%	0.8%	0.9%
Leisure & Hospitality	2.9%	3.2%	3.5%
Educational & Health Svcs	2.0%	3.3%	3.0%
Government	-0.1%	-0.4%	0.0%
Trade, Trans. & Utilities	0.9%	2.3%	2.6%
Manufacturing	0.1%	-0.1%	0.9%
Other Services	1.0%	0.2%	0.6%

a) Historical (BLS Current Employment Statistics)

b) Forecast

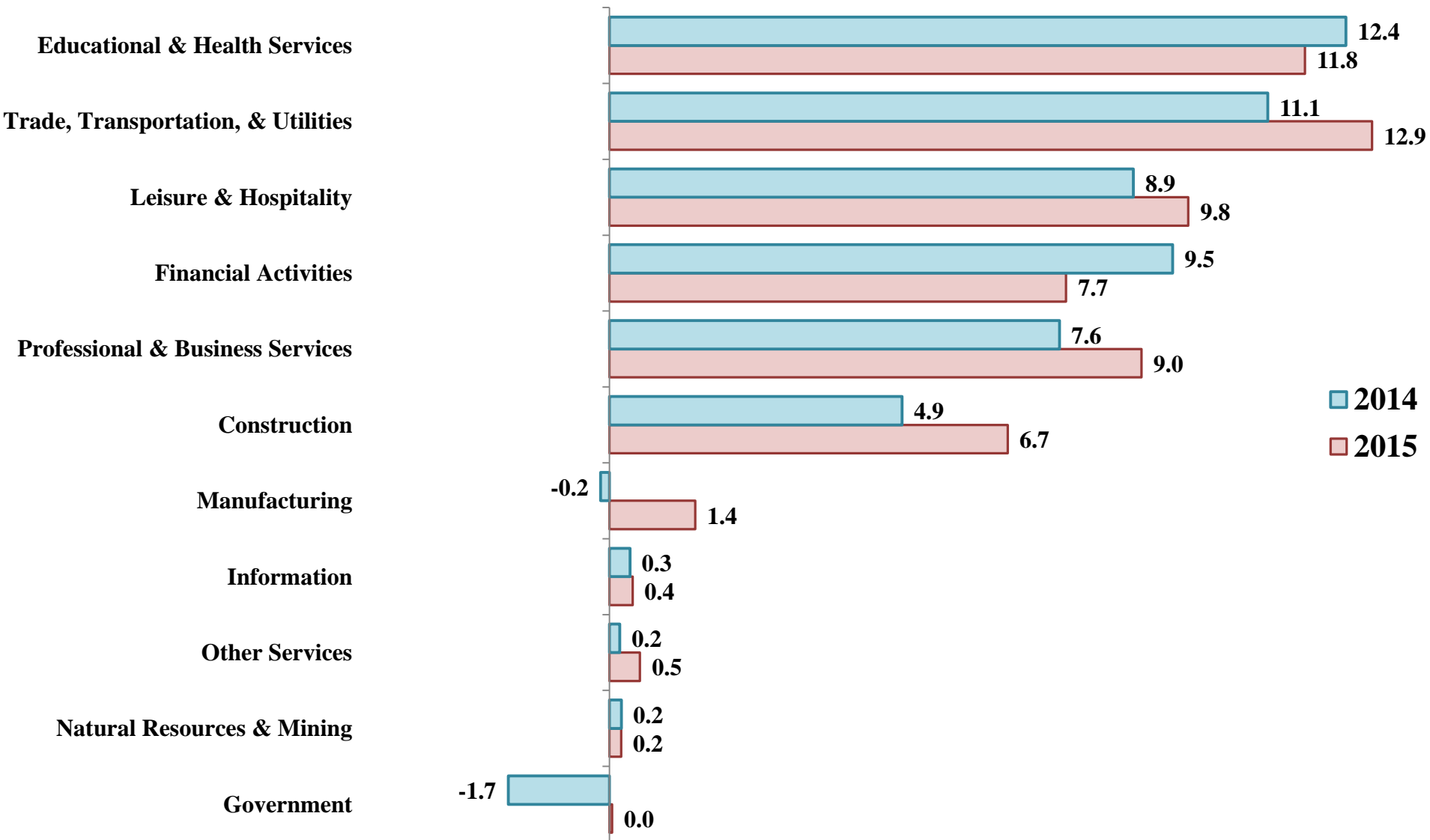
Largest job gain in EHS followed closely by Trade, Transportation, & Utilities

Arizona Forecast Employment Change 2013-2015, in thousands



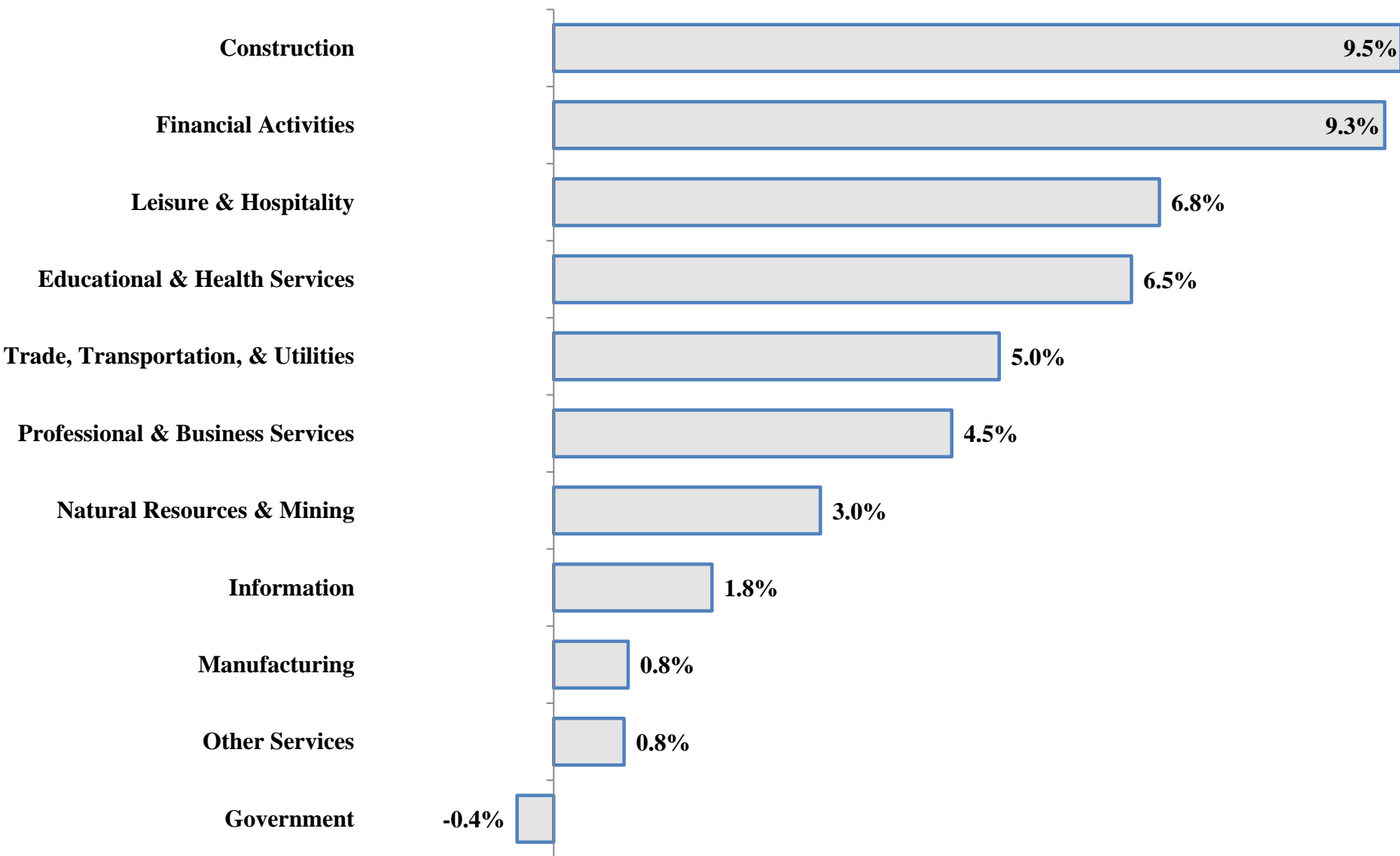
Arizona Annual Net Job Gain by Sector

2014 & 2015, in thousands



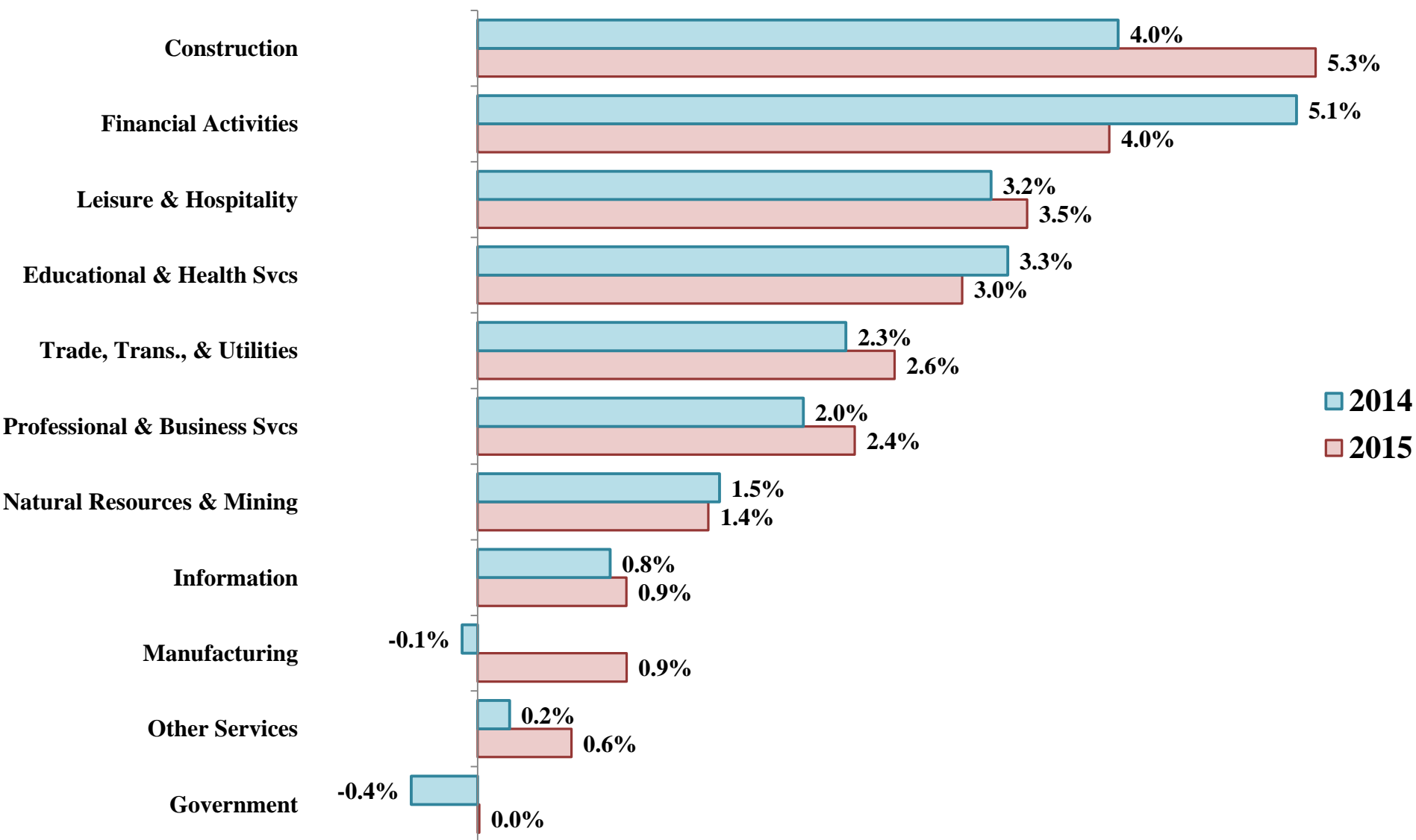
Fastest growth rate expected in Construction and Financial Activities sectors

Arizona Forecast Employment Percentage Change 2013-2015, in thousands

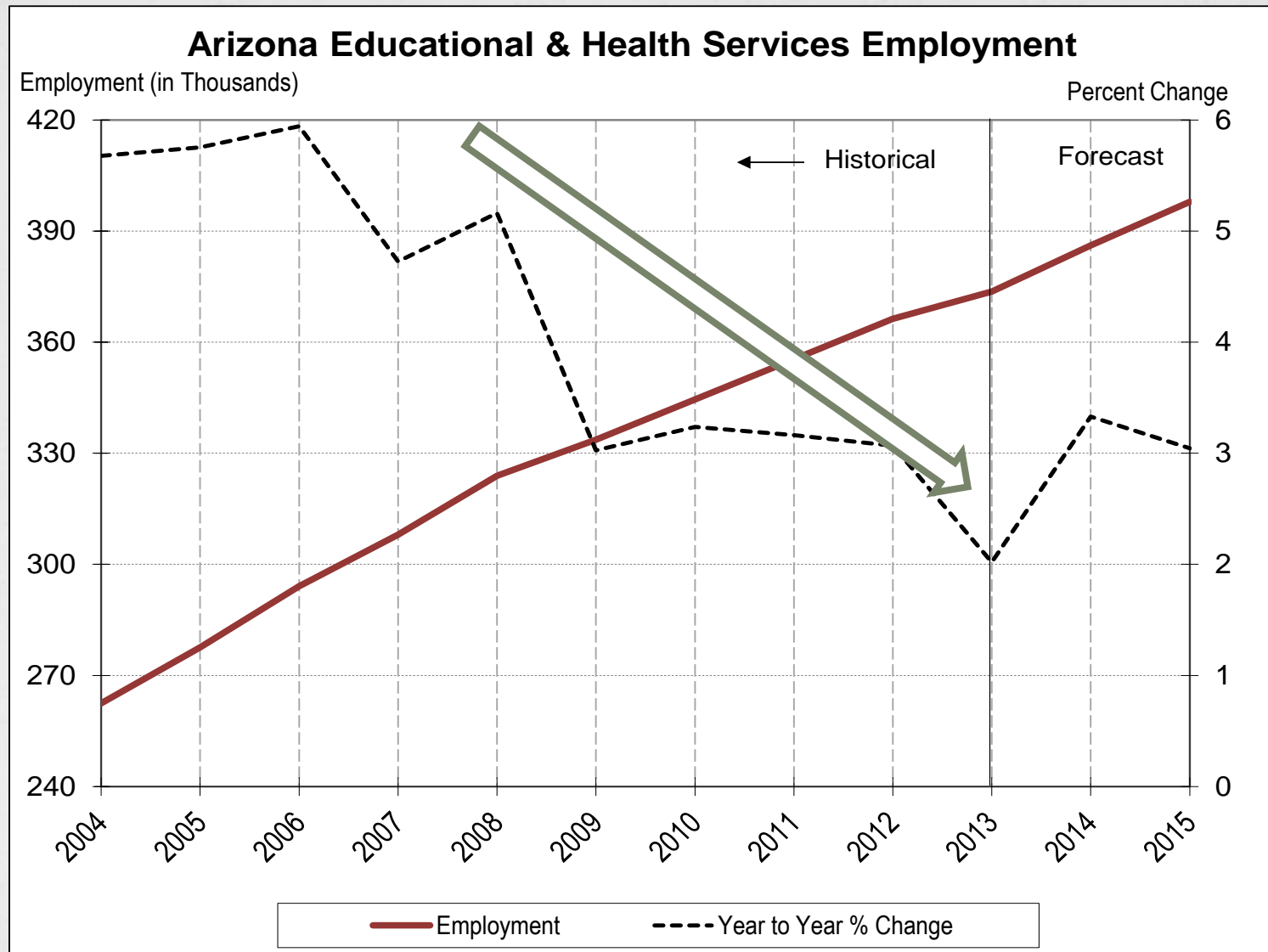


Arizona Forecast Employment Percentage Change

2014 & 2015, in thousands



Slowing Growth Rate in EHS expected to pick up slightly

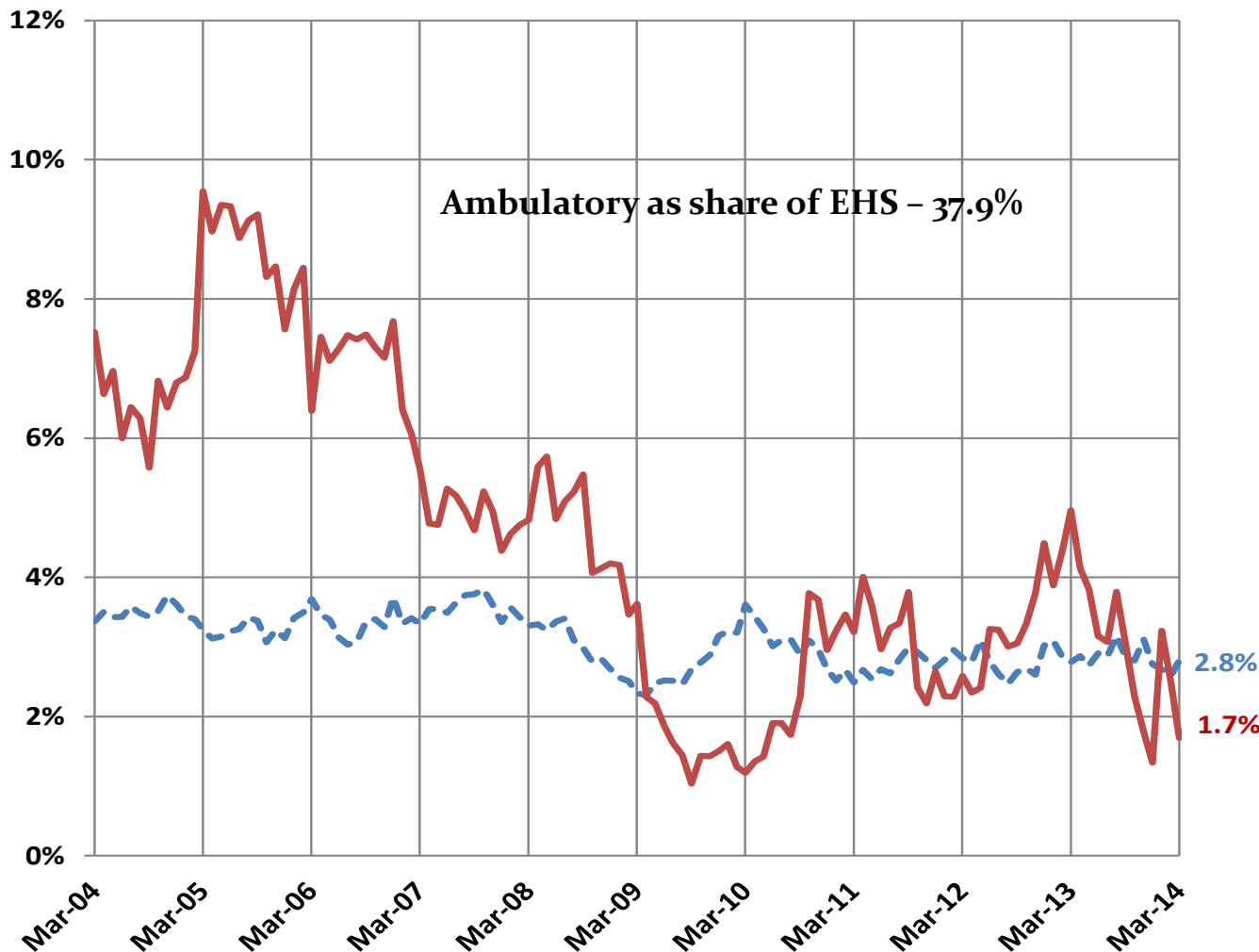


- EHS forecast to gain 24,200 jobs or 6.5% between 2013 & 2015
- Within EHS, the largest increases are forecast in the Ambulatory Health Services sub-sector

Ambulatory Health Care Services

Over-the-Year Percentage Change

— United States — Arizona



Arizona Forecast Growth Rate

2014

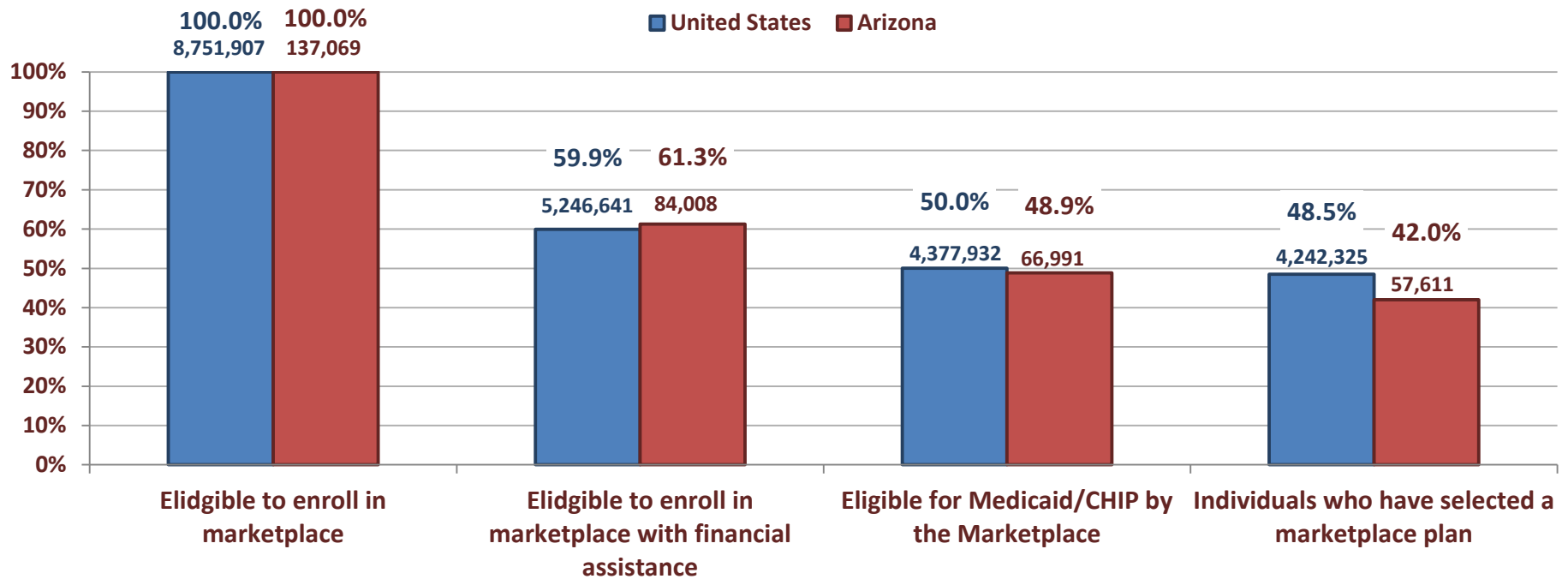
2015

Ambulatory Health Care Services

3.0

3.2

Healthcare Marketplace Statistics

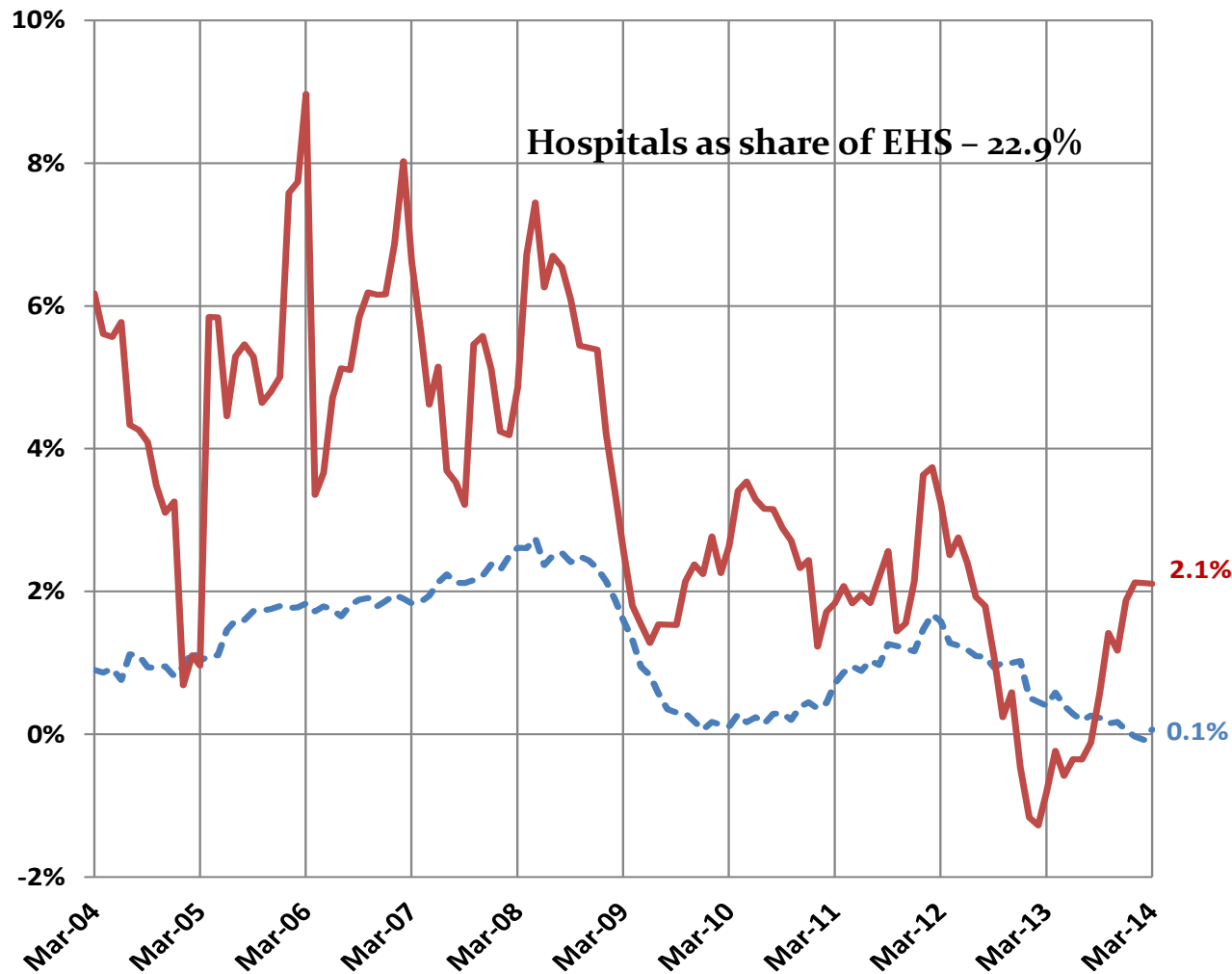


Source: Health Insurance Marketplace: March Enrollment Report, October 1, 2013 - March 1, 2014, Office of the Assistant Secretary for Planning and Evaluation (ASPE), Department of Health and Human Services (HHS); March 11, 2014.

Hospitals

Over-the-Year Percentage Change

--- United States — Arizona



Arizona Forecast Growth Rate

2014

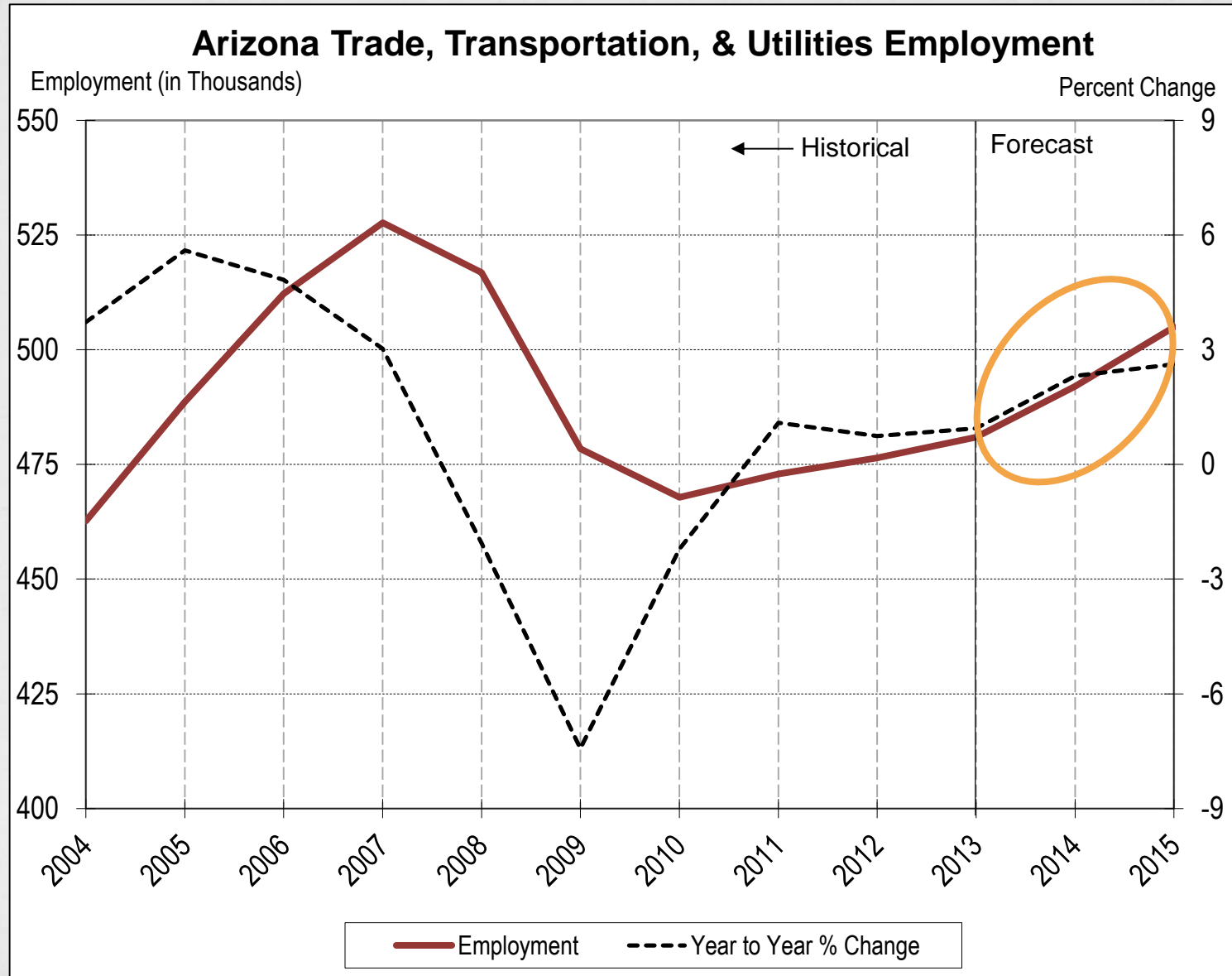
2015

Hospitals

2.3

2.5

TTU forecast to gain 24,000 jobs or 5.0% (2013-2015)

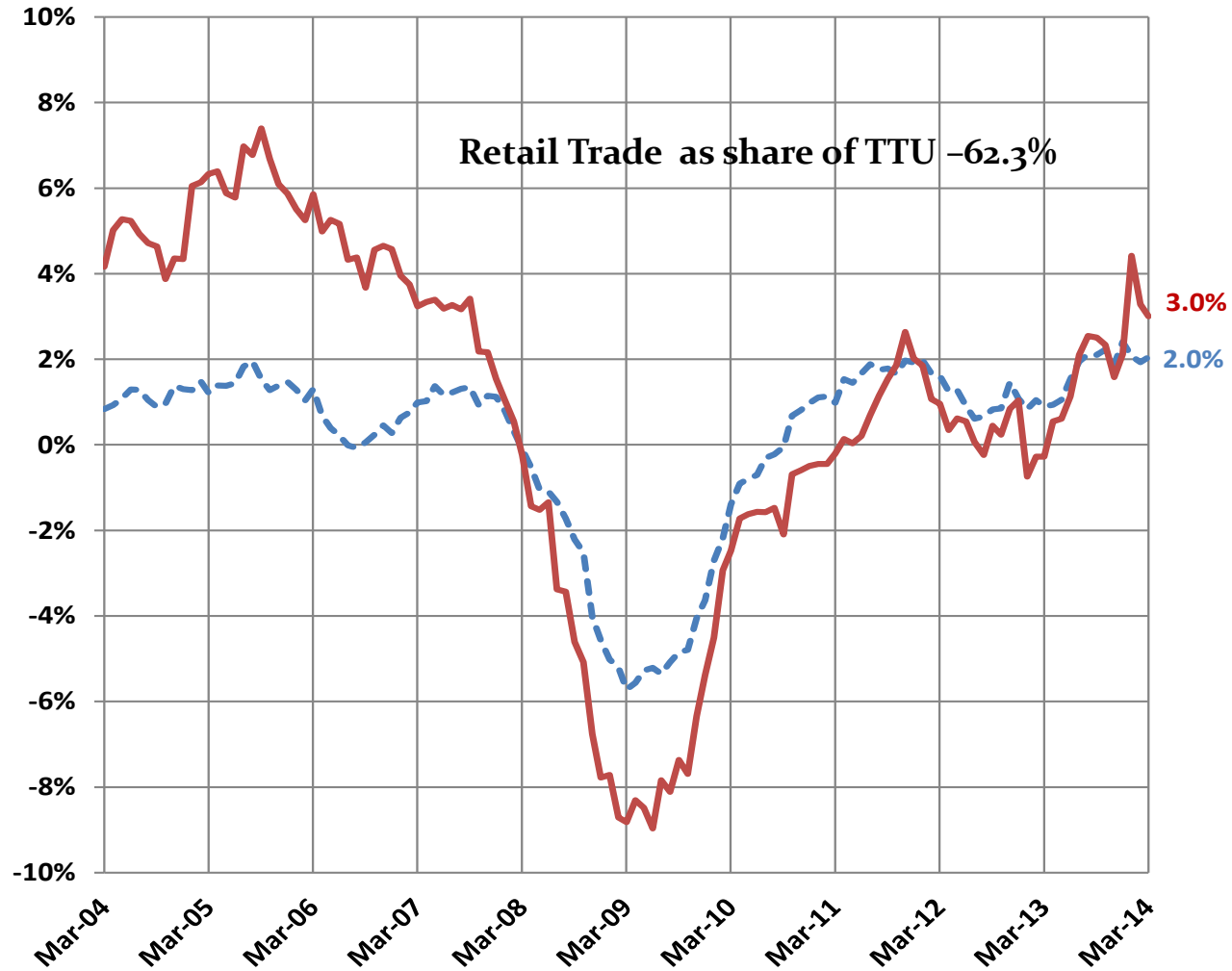


Majority of the projected gains in Wholesale Trade. Forecast gains across all Retail Trade sub-sectors

Retail Trade

Over-the-Year Percentage Change

--- United States — Arizona



Arizona Forecast Growth Rate

2014

2015

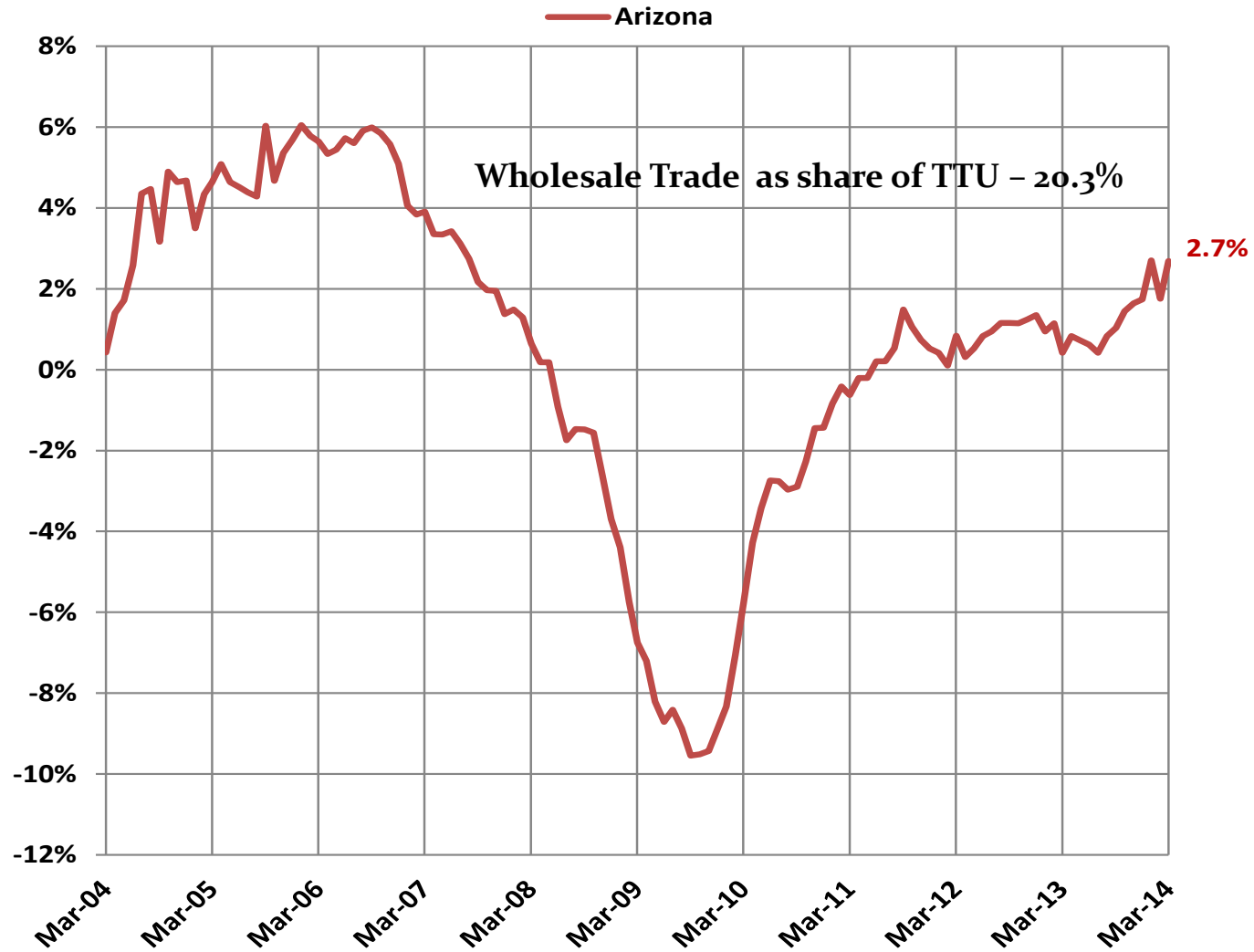
Retail Trade

3.0

3.1

Wholesale Trade

Over-the-Year Percentage Change



Arizona Forecast Growth Rate

2014

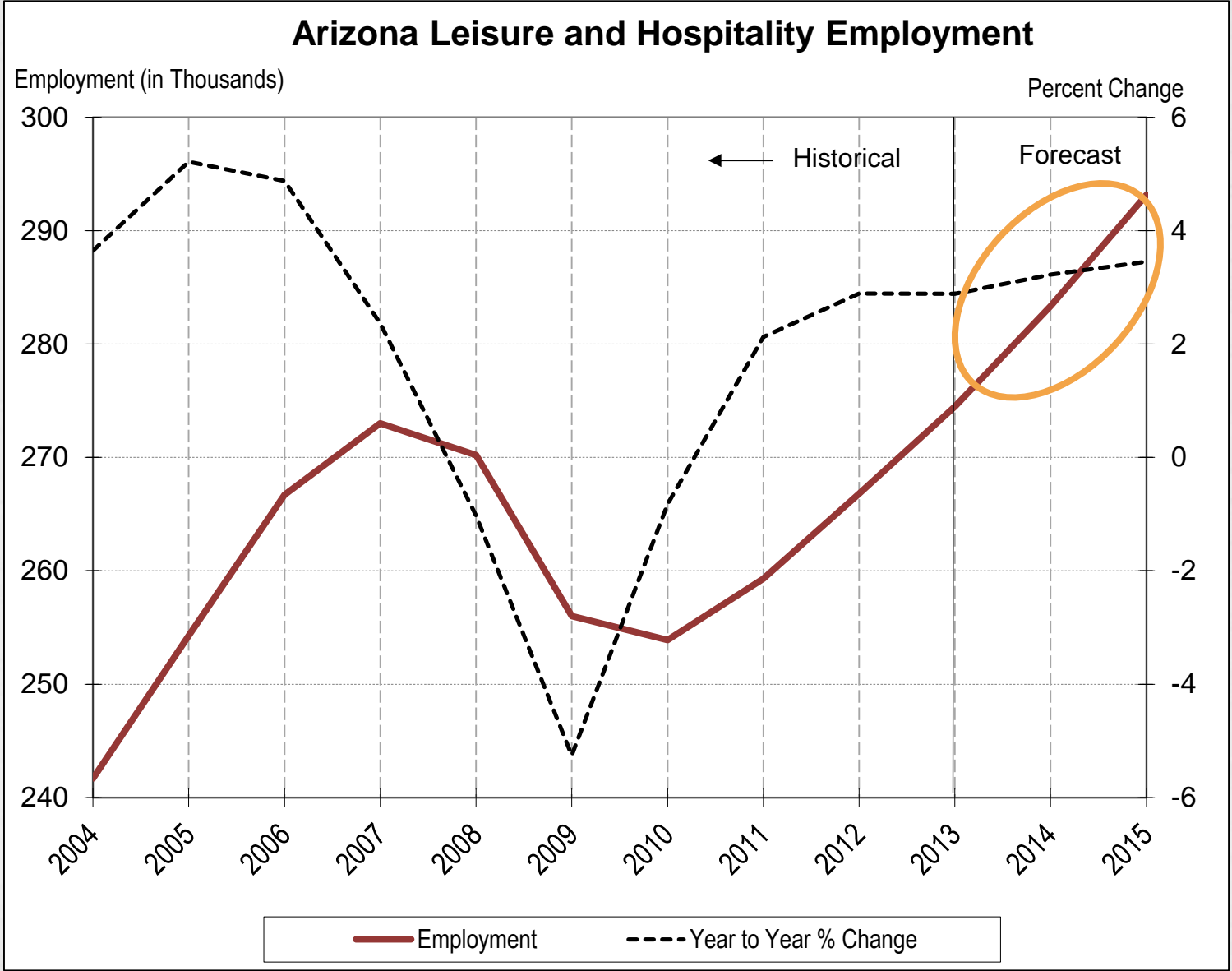
2015

Wholesale Trade

2.2

2.5

Third largest employment gains forecast in L&H (18,600 jobs or 6.8%) (13-15)

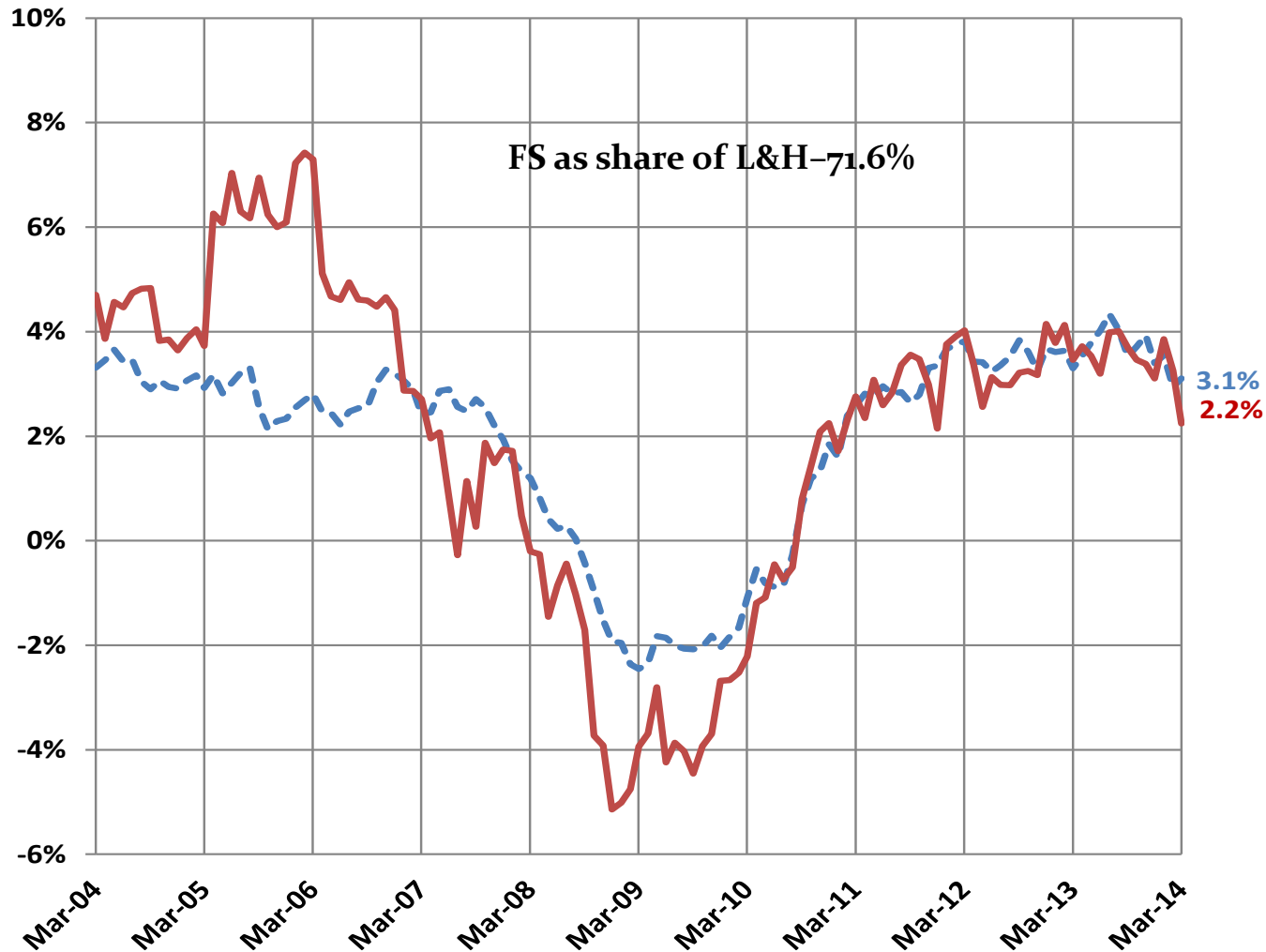


Majority gains Forecast in Food Services and Drinking Places

Food Services and Drinking Places

Over-the-Year Percentage Change

--- United States — Arizona



Arizona Forecast Growth Rate

2014

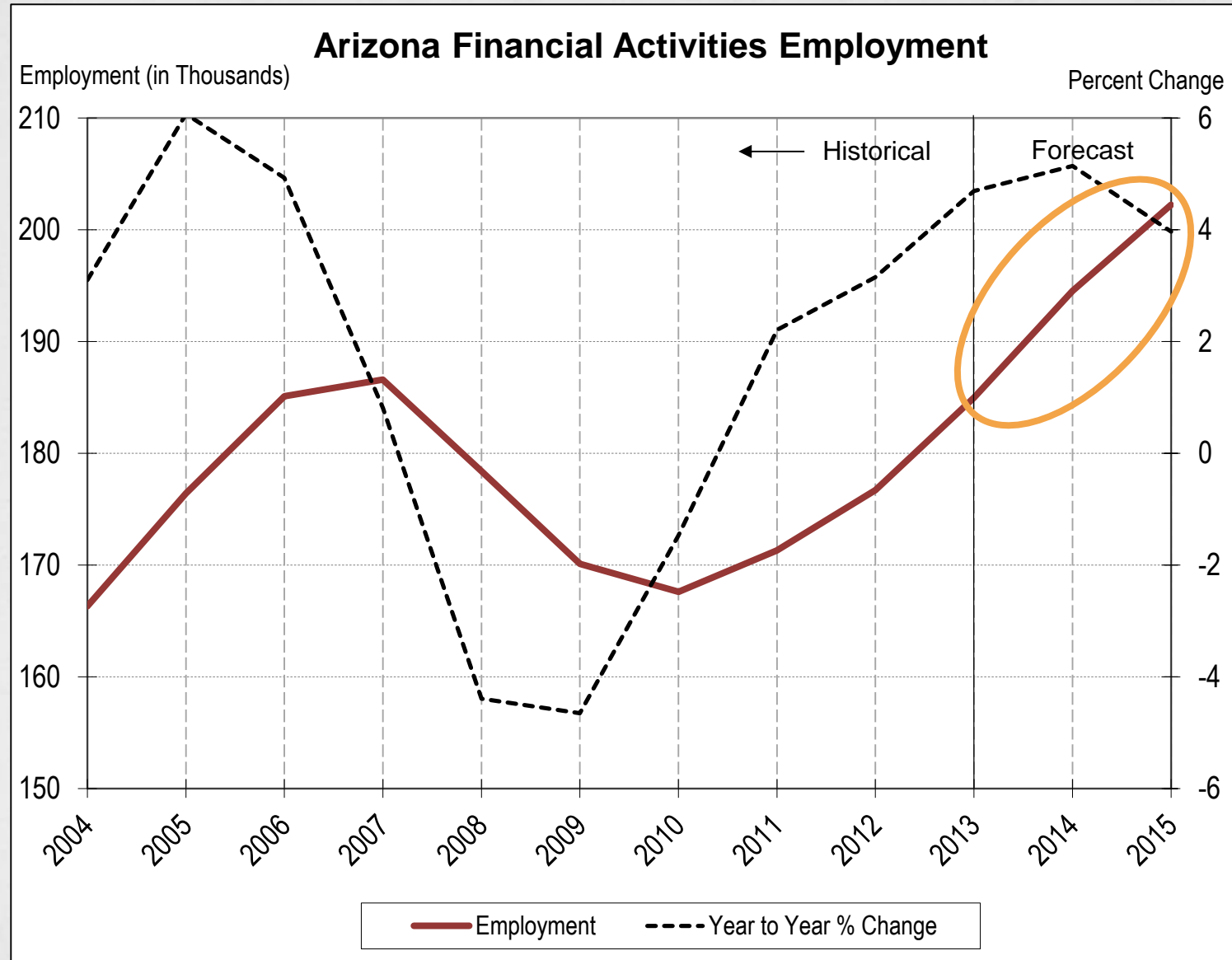
2015

Food Services and Drinking Places

3.8

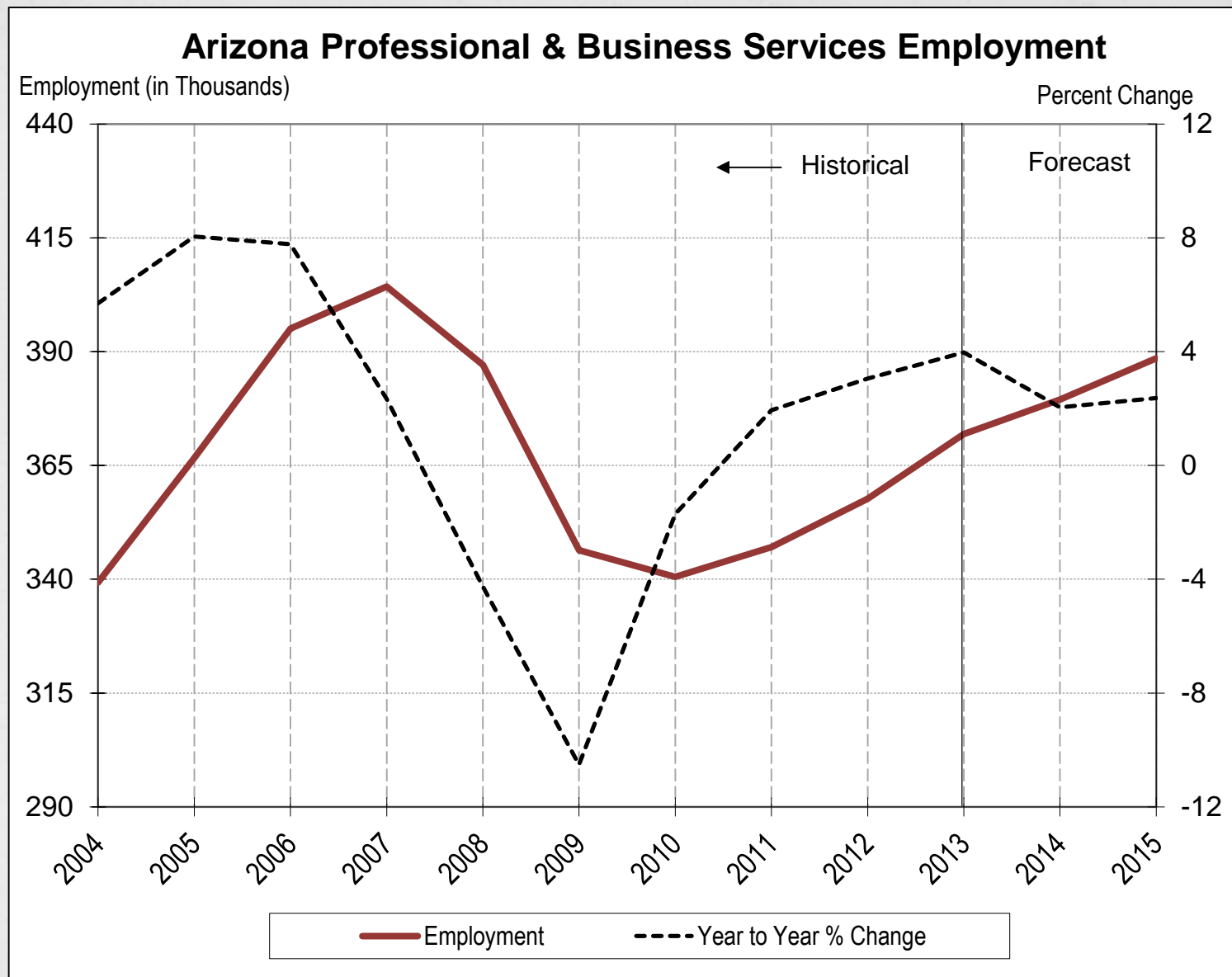
4.0

Financial Activities sector expected to gain 17,200 jobs or 9.3% (2013-2015)



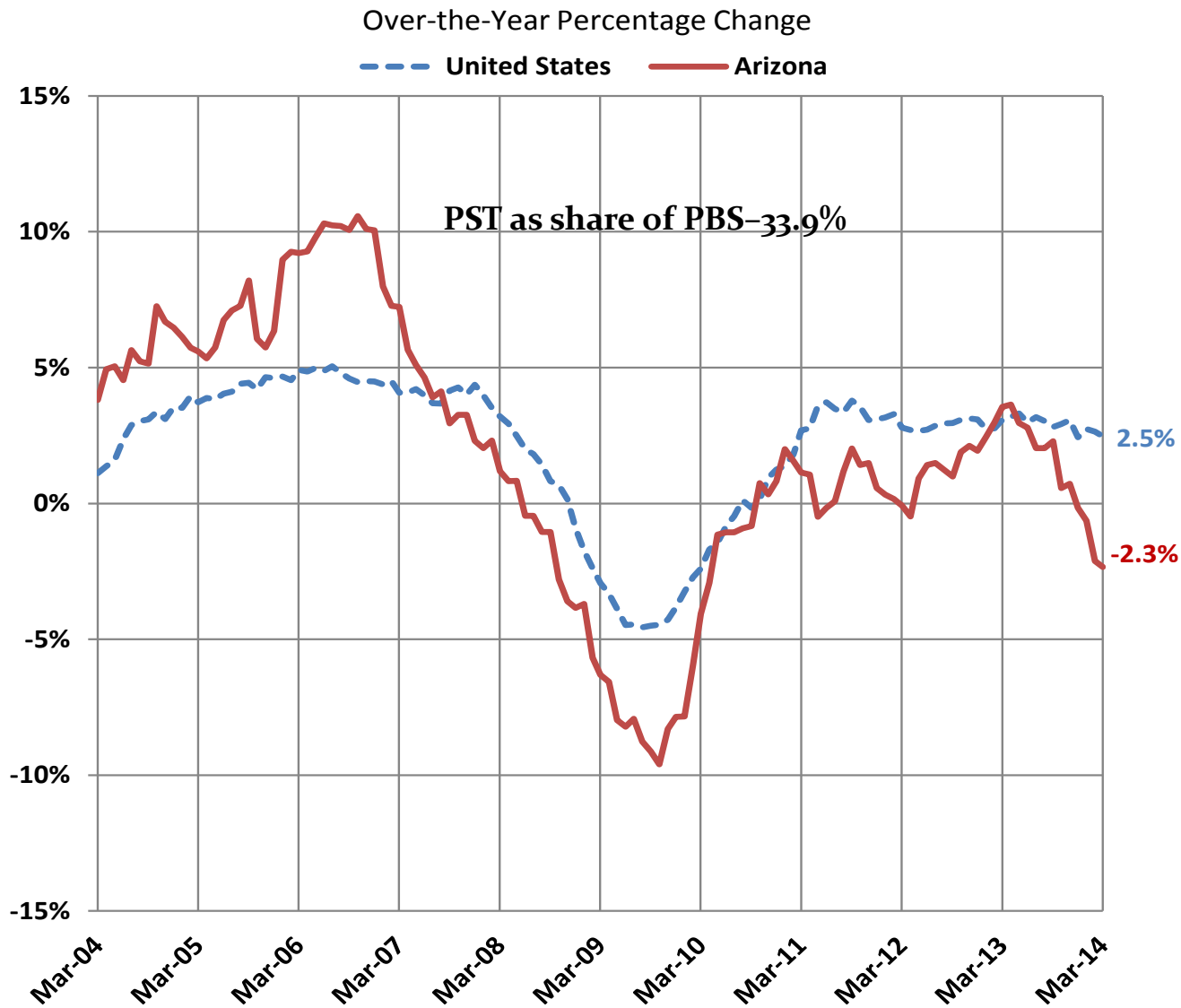
All subsectors expected to gain over the two year period

PBS sector forecast to gain 16,600 jobs or 4.5% (2013-2015)



Arizona Forecast Growth Rate	2014	2015	Share of PBS
Administrative and Waste Services	3.9	3.9	58.4%

Professional, Scientific and Technical Services



Arizona Forecast Growth Rate

Professional, Scientific and Tech Services

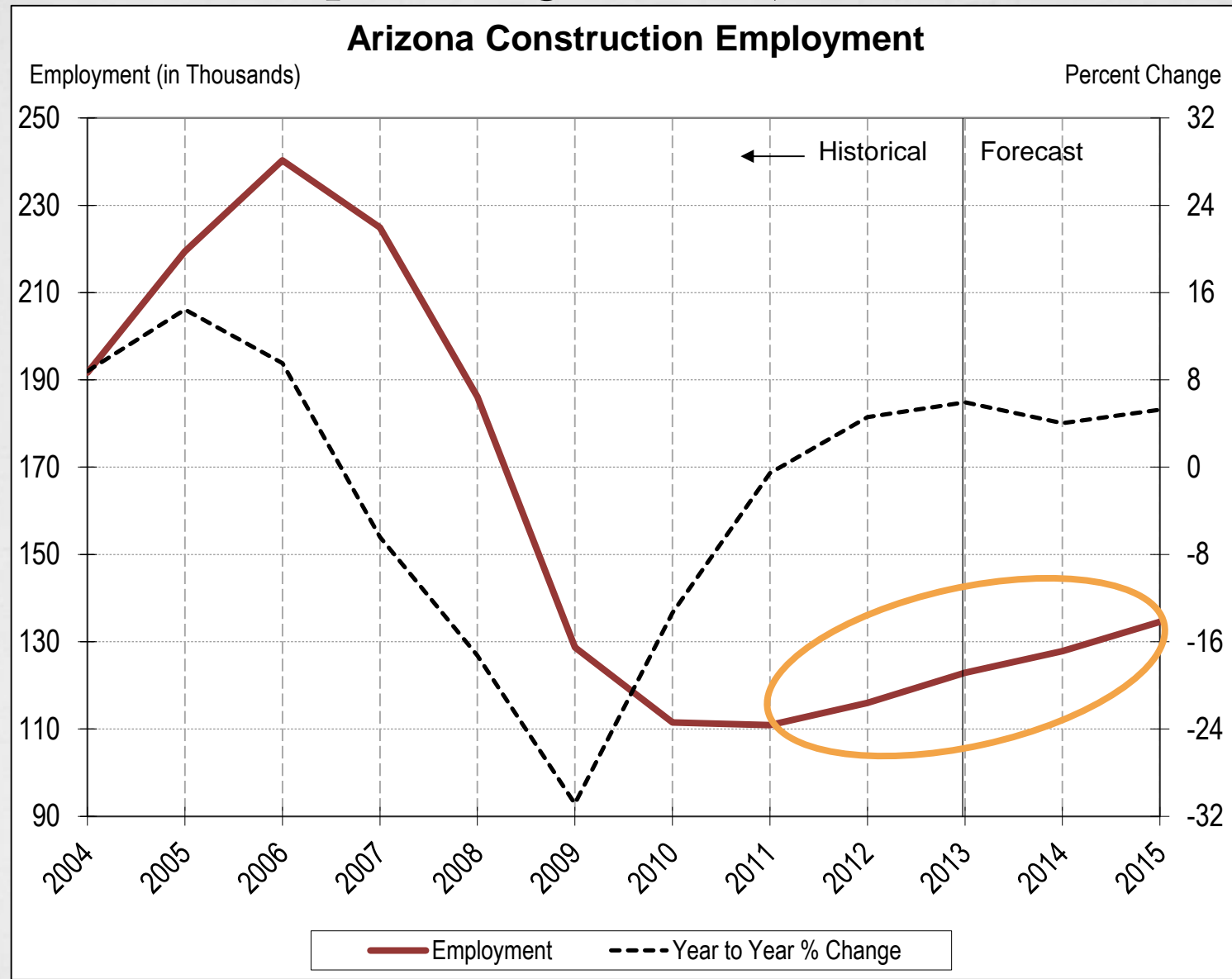
2014

-0.5

2015

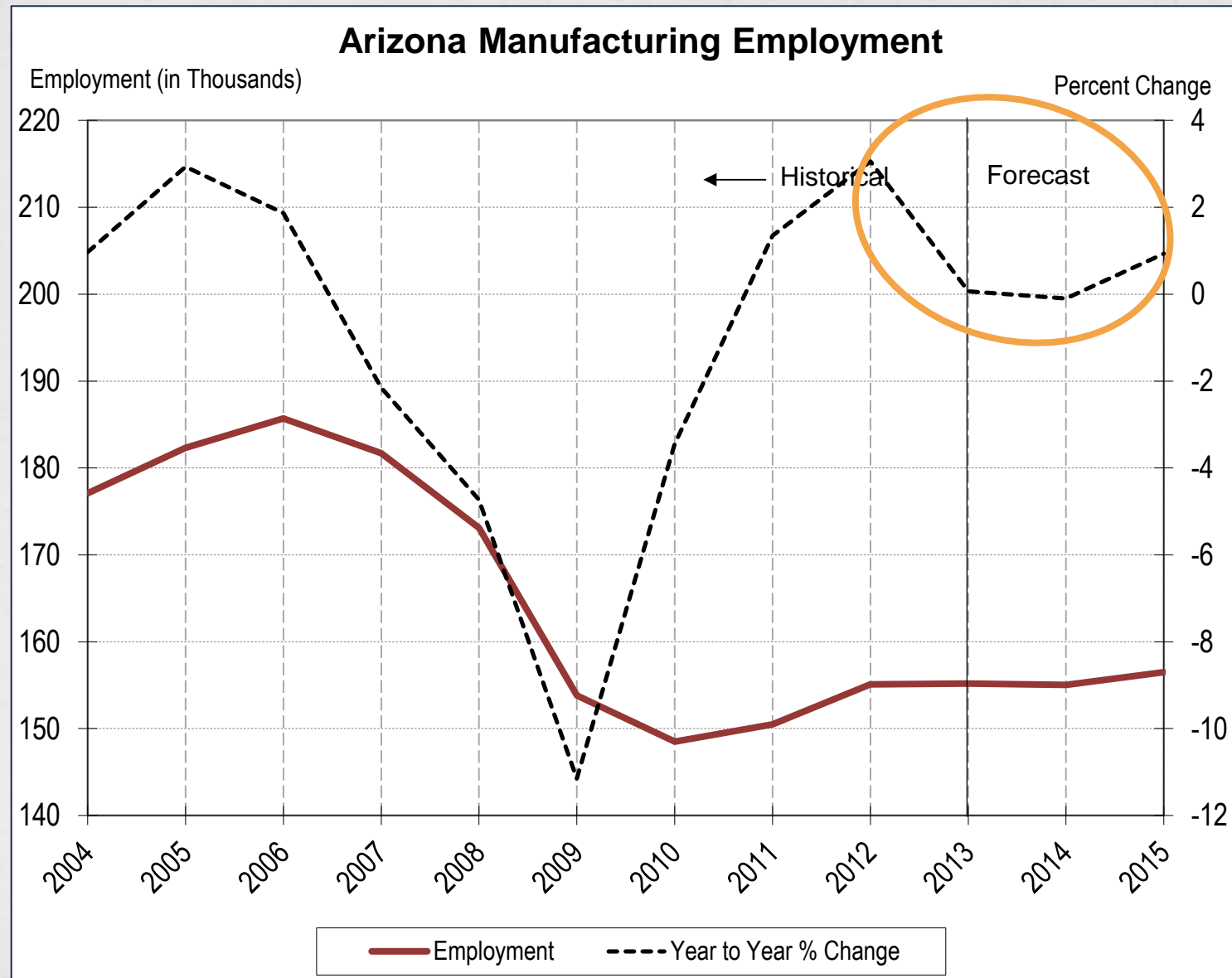
0.2

Construction expected to gain 11,700 jobs or 9.5% (2013-2015)

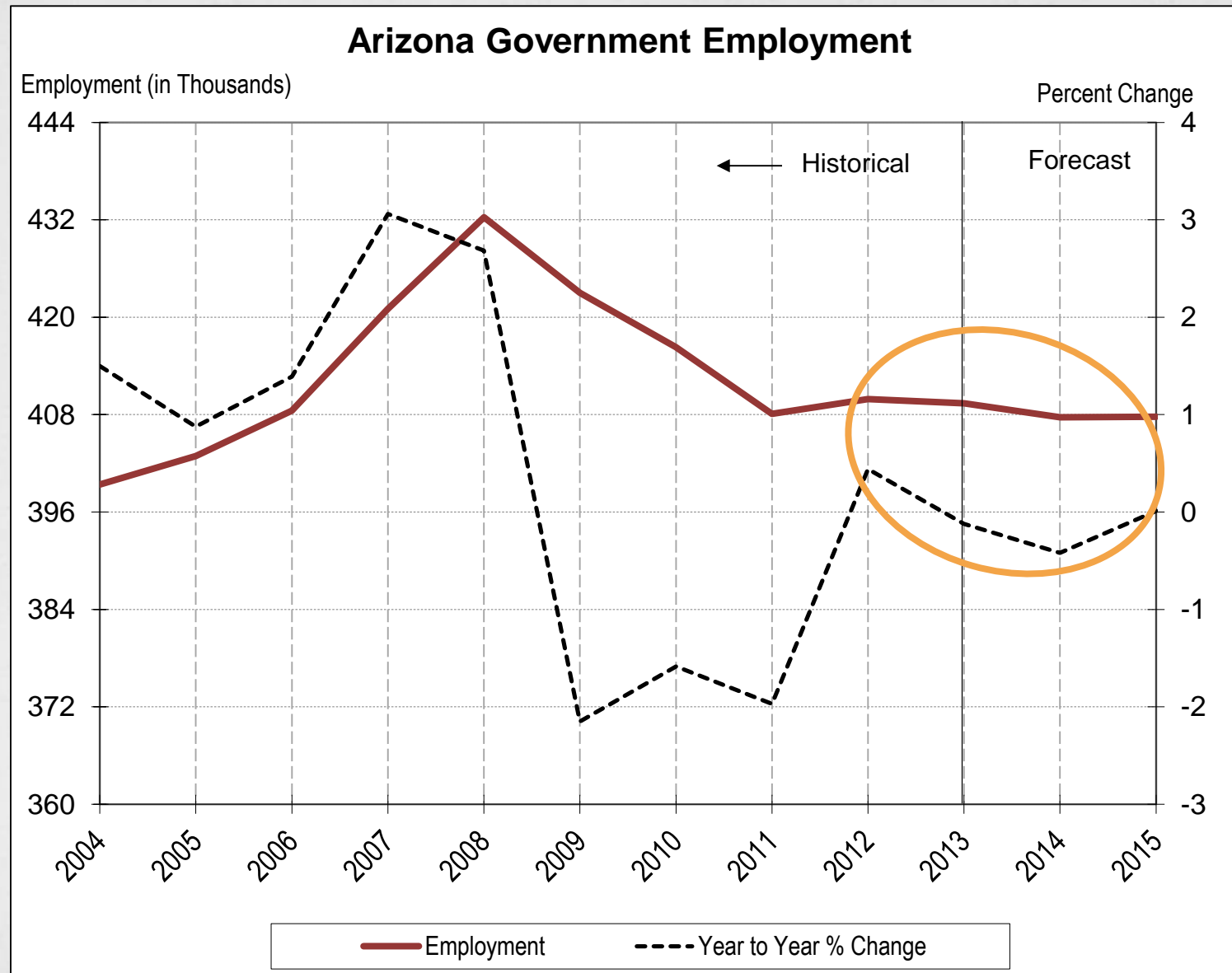


- Forecast gains in Specialty Trades and Heavy Construction to be offset by projected losses in Buildings Construction
- Majority of the projected increases concentrated in Specialty Trades

Manufacturing sector expected to gain 1,300 jobs or 0.8% (2013-2015)



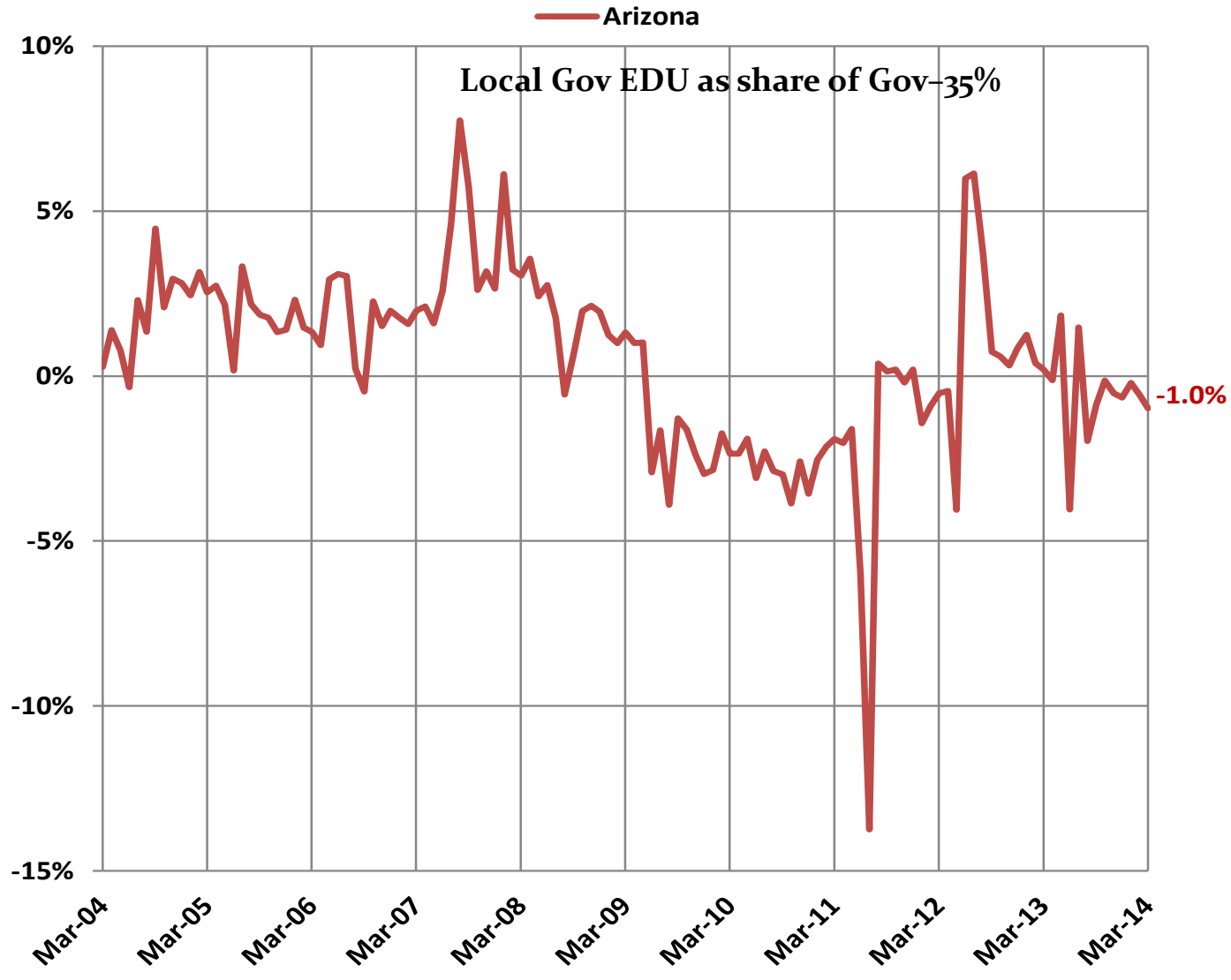
Government expected to contract during the forecast period



Government losses driven by losses in Local Government Education

Local government education

Over-the-Year Percentage Change

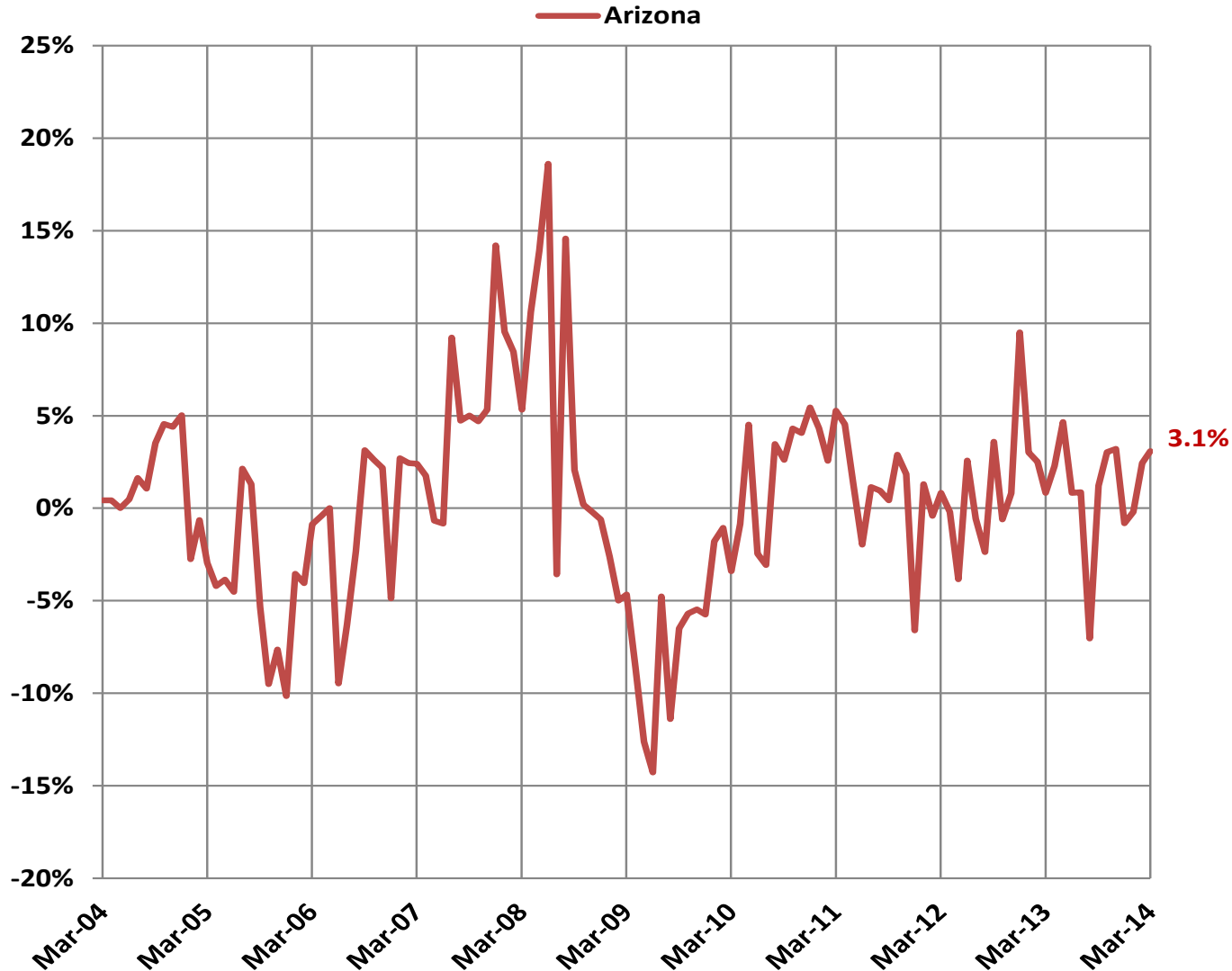


Arizona Forecast Growth Rate	2014	2015
Local Ed	-0.6	0.0

Gains forecast in State Government Education

State Government Education

Over-the-Year Percentage Change



**Arizona
Forecast
Growth
Rate**

2014

2015

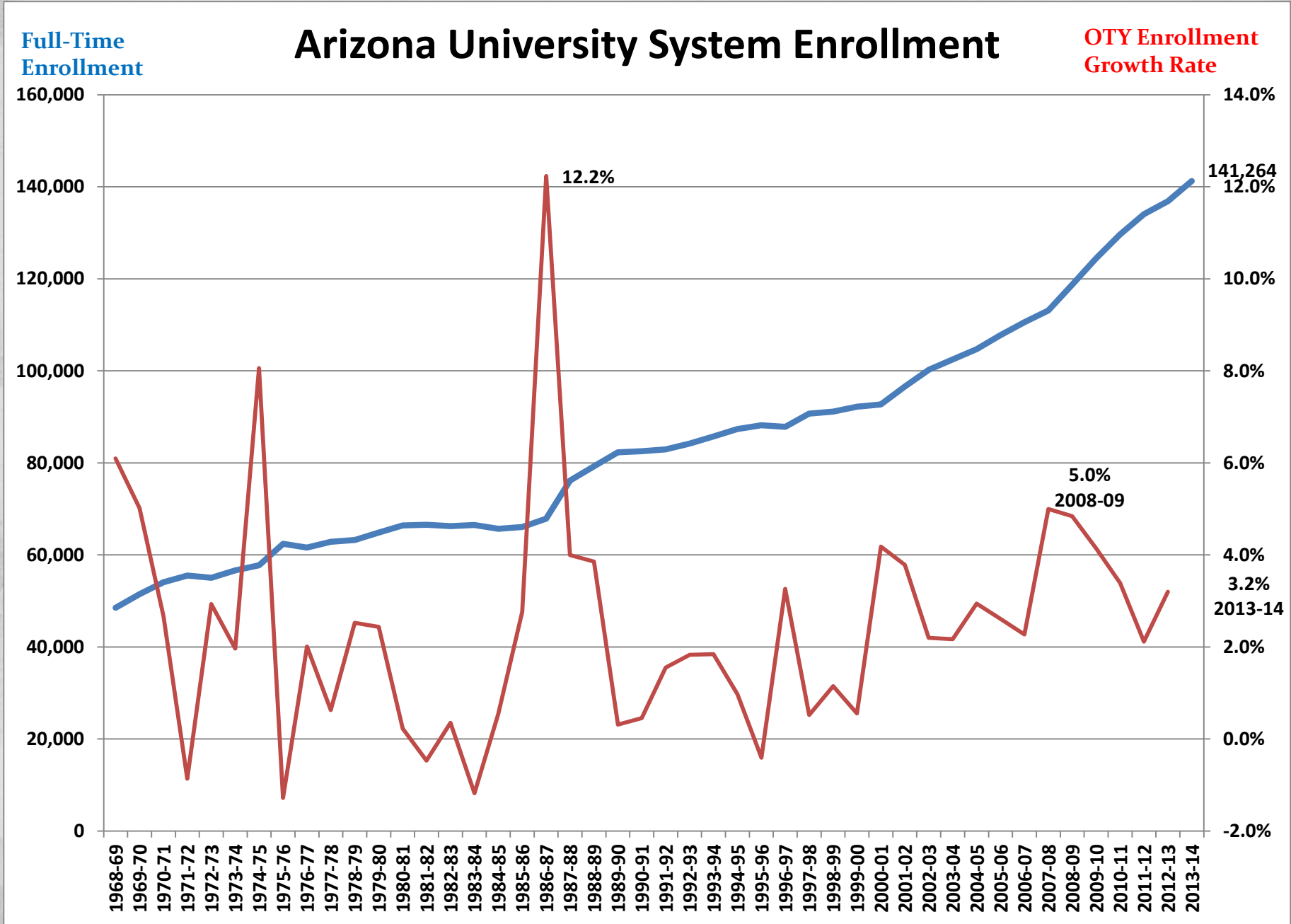
State Ed

1.3%

0.9%

**State Gov EDU as share of
Gov-11.3%**

Full-time enrollment at Arizona's public university system (UA, ASU and NAU)



Source: Arizona Board of Regents

Potential Uncertainties in the Domestic Economy

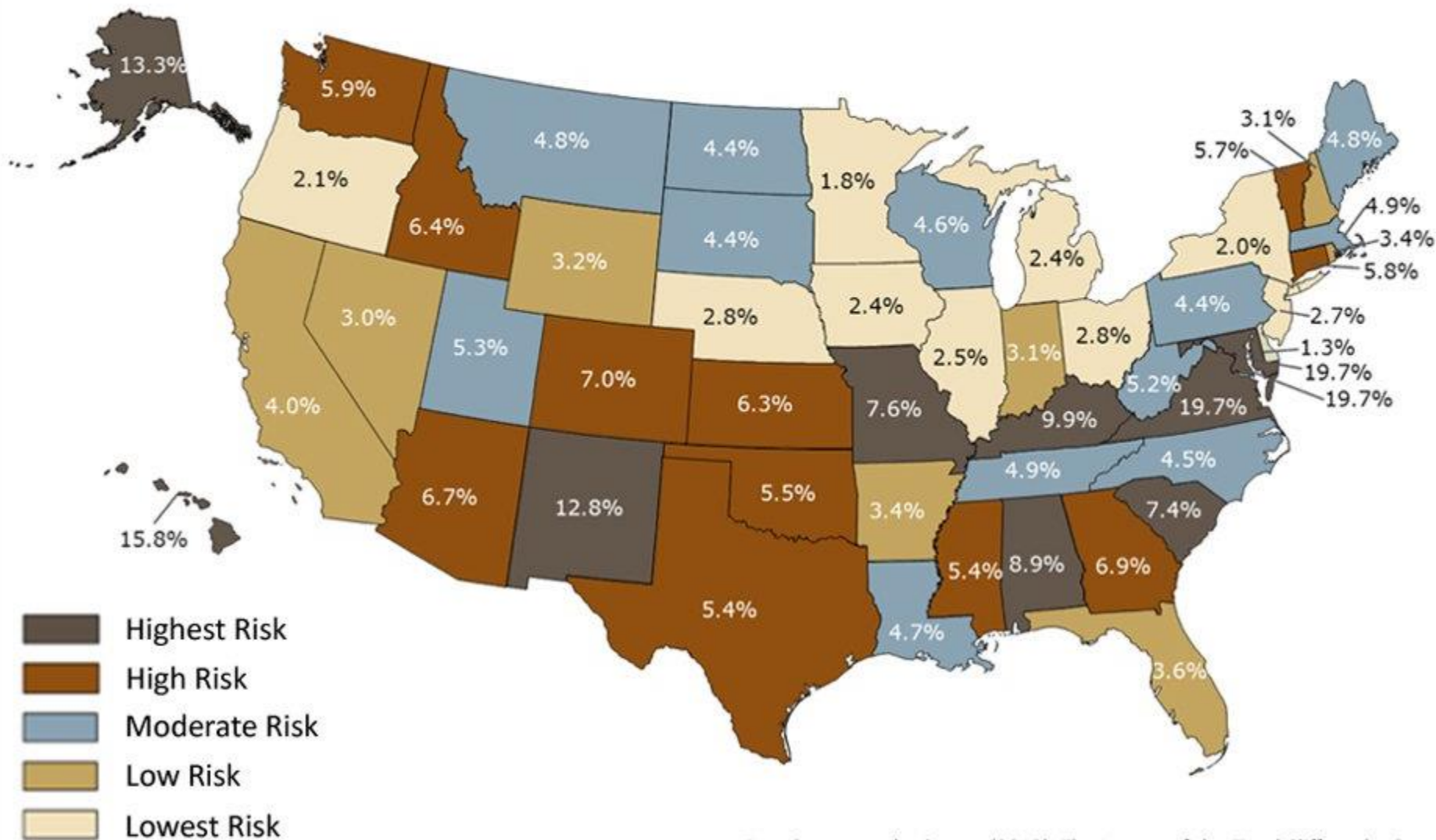
- Constrained household budgets, employment insecurity, lower wages, high debt, and rising prices for essentials prevail
- The residential real estate market has improved. However, with Dodd-Frank rules, the underwriting standards have become more stringent
- Although real business investment continues to grow, the rate of growth has slowed as a consequence of demand uncertainty
- Constrained federal, state, and local budgets could further inhibit growth
- Austerity policies adopted have slowed the pace of economic recovery to some extent because of large proportion of military spending in the state's economy. Impacts expected in the sectors of Manufacturing; Retail Trade; Professional and Business Services; and Government
- The share of gross domestic income to wage and salary accruals has continued to fall to near historic lows
- The share of gross domestic income paid as compensation to employees continues to fall to a level near the early 1950's

Potential Uncertainties in the International Economy

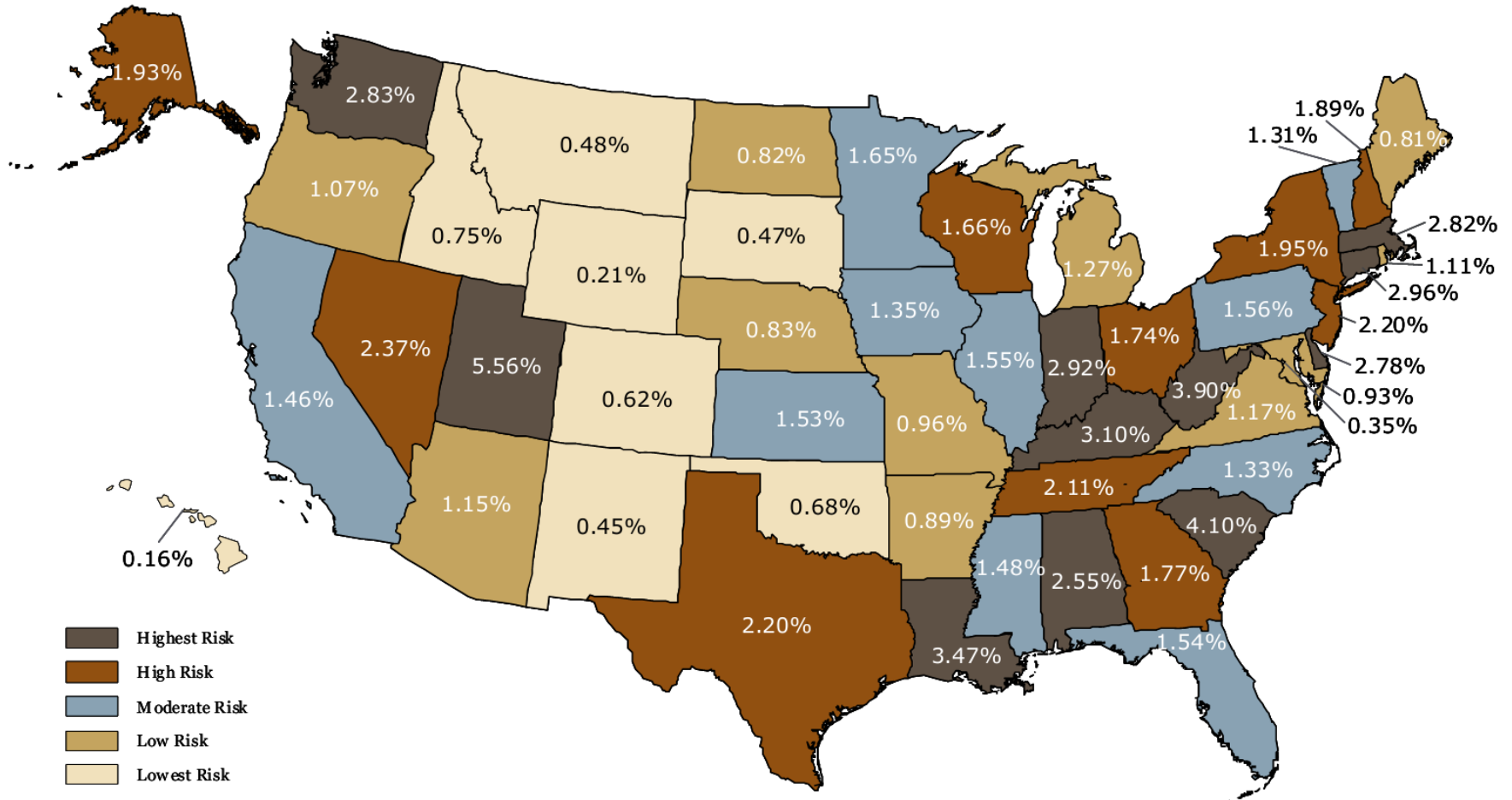
- A political conflict between Russian and Ukraine could increase the global price of petroleum and natural gas and, thus slow the pace of world economic growth
- China's national economy grew an annual 7.4 per cent in the first quarter, slowing from 7.7 per cent in the previous quarter. Analysts point to sluggish factory growth and weak investment. Resource-dependent and manufacturing-heavy provinces suffered the sharpest economic slowdown in the first quarter as the government pushed to tackle excessive factory capacity and pollution

The Positives listed in earlier slides outweigh the uncertainties listed above in support of our forecast.

Federal Spending As A Percent Of State GDP



European Exports as a Percent of GDP



Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Thank You!

Any Questions?

